

Amuse Group Holding Limited 佰悦集團控股有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock code: 8545)

SHARE OFFER

Sponsor

AmCap

Ample Capital Limited

豐盛融資有限公司

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



IMPORTANT

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

Amuse Group Holding Limited

佰悦集團控股有限公司

(incorporated in the Cayman Islands with limited liability)

LISTING ON GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF SHARE OFFER

Number of Offer Shares	:	250,000,000 Shares
Number of Placing Shares	:	225,000,000 Shares (subject to reallocation)
Number of Public Offer Shares	:	25,000,000 Shares (subject to reallocation)
Offer Price	:	Not more than HK\$0.35 per Offer Share and expected to be not less than HK\$0.25 per Offer Share (plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) (payable in full on application in Hong Kong dollar and subject to refund)
Nominal value	:	HK\$0.01 per Share
Stock code	:	8545

Sponsor

AmCap

Ample Capital Limited

豐盛融資有限公司

Joint Global Coordinators,
Joint Bookrunners and Joint Lead Managers



Co-Lead Managers



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

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

The Offer Price is expected to be fixed by the Price Determination Agreement between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the Price Determination Date, which is expected to be on or around Thursday, 24 May 2018 and in any event, no later than 12:00 noon on Saturday, 26 May 2018, or such later date or time as may be agreed by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company. The Offer Price will not be more than HK\$0.35 per Offer Share and is expected to be not less than HK\$0.25 per Offer Share. If our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) are unable to reach an agreement on the Offer Price by that date or time or such later date or time as agreed by our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), the Share Offer will not become unconditional and will not proceed. The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, with the consent of our Company, reduce the above indicative Offer Price range at any time prior to the Price Determination Date. In such a case, notice of the reduction in the indicative Offer Price range will be available on the website of the Stock Exchange at www.hkexnews.hk and the website of our Company at amusegroupholding.com.

Pursuant to the termination provisions contained in the Underwriting Agreements, the Joint Global Coordinator have the right in certain circumstances, at their absolute discretion, to terminate the obligations of the Underwriters under the Underwriting Agreements at any time prior to 8:00 a.m. (Hong Kong time) on the date when dealings in the Shares first commence on the Stock Exchange (such first dealing date is currently expected to be on Thursday, 31 May 2018). Details of the terms of the termination provisions are set out in the paragraph headed "Underwriting — Underwriting arrangements and expenses — Public Offer Underwriting Agreement — Grounds for termination" in this prospectus. It is important that you refer to that section for further details.

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

18 May 2018

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

EXPECTED TIMETABLE

(Note 1)

Public Offer commences and WHITE and YELLOW Application Forms available from	9:00 a.m. on Friday, 18 May 2018
Application lists for Public Offer open ^(Note 2)	11:45 a.m. on Thursday, 24 May 2018
Latest time for lodging WHITE and YELLOW Application Forms	12:00 noon on Thursday, 24 May 2018
Latest time to give electronic application instructions to HKSCC ^(Note 3)	12:00 noon on Thursday, 24 May 2018
Application lists for Public Offer close ^(Note 2)	12:00 noon on Thursday, 24 May 2018
Expected Price Determination Date on or before ^(Note 4)	Thursday, 24 May 2018
Announcement of the final Offer Price, the level of indication of interest in the Placing, the level of applications of the Public Offer, the basis of allotment and the results of applications in the Public Offer to be published in our Company's website at amusegroupholding.com and the website of the Stock Exchange at www.hkexnews.hk on or before	Wednesday, 30 May 2018
Announcement of results of allocations in the Public Offer (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels including our Company's website at amusegroupholding.com and the website of the Stock Exchange at www.hkexnews.hk (for further details, please refer to the section headed "How to apply for Public Offer Shares — 10. Publication of results" of this prospectus) on or before	Wednesday, 30 May 2018
Results of allocations in the Public Offer will be available at www.tricor.com.hk/ipo/result with a "search by ID" function on	Wednesday, 30 May 2018
Despatch/collection of refund cheques in respect of wholly or partially unsuccessful applications and wholly or partially successful applications in case the final Offer Price is less than the maximum Offer Price paid for the applications pursuant to the Public Offer on or before ^(Notes 6 to 9)	Wednesday, 30 May 2018
Despatch/collection of Share certificates in respect of wholly or partially successful applications pursuant to the Public Offer on or before ^(Notes 5 to 8 and 10)	Wednesday, 30 May 2018
Dealings in Shares on GEM expected to commence at 9:00 a.m. on	Thursday, 31 May 2018

EXPECTED TIMETABLE

The application for the Share Offer will commence on Friday, 18 May 2018 through Thursday, 24 May 2018, being slightly longer than normal market practice of four days. The application monies (including the brokerages, SFC transaction levies and Stock Exchange trading fees) will be held by the receiving bank on behalf of the Company and the refund monies, if any, will be returned to the applicants without interest on Wednesday, 30 May 2018. Investors should be aware that the dealings in the Shares on the Stock Exchange are expected to commence on Thursday, 31 May 2018.

Notes:

1. All times and dates refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Share Offer, including its conditions, are set out in the section headed “Structure and conditions of the Share Offer” of this prospectus.
2. If there is a “black” rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 24 May 2018, the application lists will not open on that day. For further details, please refer to the section headed “How to apply for Public Offer Shares — 9. Effect of bad weather on the opening of the application lists” of this prospectus.
3. Applicants who apply for Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the paragraph headed “How to apply for Public Offer Shares — 5. Applying by giving electronic application instructions to HKSCC via CCASS” of this prospectus.
4. The Price Determination Date is expected to be on or around Thursday, 24 May 2018, and in any event, no later than 12:00 noon on Saturday, 26 May 2018, or such later date or time as may be agreed by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company. If, for any reason, the Offer Price is not agreed on or before Saturday, 26 May 2018 between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), the Share Offer will not proceed and will lapse accordingly.
5. Share certificates for the Public Offer Shares are expected to be issued on or before Wednesday, 30 May 2018 but will only become valid certificates of title at 8:00 a.m. on Thursday, 31 May 2018 provided that (a) the Share Offer has become unconditional in all respects; and (b) none of the Underwriting Agreements has been terminated in accordance with its terms.
6. Applicants for 1,000,000 Public Offer Shares or more on **WHITE** Application Form(s) may collect their refund cheques (where relevant) and/or Share certificates (where relevant) personally from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, 30 May 2018 or any other day as announced by us as the date of despatch of Share certificates/refund cheques.

Individuals who are eligible for personal collection must not authorise any other person(s) to make collection on their behalf. Corporate applicants which opt for personal collection must attend by their authorised representative(s) bearing a letter of authorisation from such corporation(s) stamped with the corporation’s chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Branch Share Registrar.

7. Applicants for 1,000,000 Public Offer Shares or more on **YELLOW** Application Forms may collect their refund cheques, if any, in person but may not collect their Share certificates personally which will be deposited into CCASS for the credit of their designated CCASS Participants’ stock accounts or CCASS Investor Participants’ stock accounts, as appropriated. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

EXPECTED TIMETABLE

8. Uncollected Share certificates and refund cheques (if any) will be despatched by ordinary post at the applicant's own risk to the address specified in the relevant Application Form. For further information, applicants should refer to the section headed "How to apply for Public Offer Shares — 13. Despatch/collection of share certificates and refund monies" of this prospectus.
9. Refund cheques will be despatched in respect of wholly or partially unsuccessful applications and in respect of successful applications if the final Offer Price is less than the maximum Offer Price of HK\$0.35 per Offer Share.
10. Share certificates will only become valid certificates of title provided that the Share Offer has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of their Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

In the event of any change to the above expected timetable after the date of this prospectus, an announcement will be made on the Stock Exchange's website at www.hkexnews.hk and our Company's website at amusegroupholding.com accordingly. All Share certificates will only become valid certificates of title of the Shares provided that the Share Offer has become unconditional in all respects and the Underwriting Agreements have not been terminated in accordance with its terms at or before 8:00 a.m. (Hong Kong time) on the Listing Date.

For further details of the structure and conditions of the Share Offer, you should refer to the section headed "Structure and conditions of the Share Offer" of this prospectus.

CONTENTS

You should rely only on the information contained in this prospectus to make your investment decision. Our Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not contained or made in this prospectus must not be relied on by you as having been authorised by our Company, the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters, any of their respective directors, affiliates, employees or representatives or any other person or party involved in the Share Offer.

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SUMMARY

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

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

Various expressions used in this summary are defined in the section headed "Definitions and glossary" in this prospectus.

BUSINESS OVERVIEW

We are a Hong Kong-based toy company which carries out design, marketing, distribution and retail sales of toys and related products. Our product portfolio during the Track Record Period included (i) a variety of premium and general class figures based on popular third party owned ACG characters; and (ii) other related products such as pens and hair ties. Our Group's revenue is derived from sales of (i) ODM toys produced according to our customers' specifications and requirements; (ii) imported toys which were sourced from overseas licensees; and (iii) our own licensed toys developed by us based on license rights obtained from various licensors of US entertainment and toy brands. Our ACG figures, primarily targeted at adult consumers, could generally pose in various positions and gestures with movable joints and accessories.

Founded in September 2004 by our co-founder and Chairman, Mr. Li, our Group commenced to design and manufacture toys for Wing Co., Ltd. (being a member of our largest customer group, namely Customer Group A, during the Track Record Period) on ODM basis since 2005. Our online store, "D4TOYS.COM", was set up in 2012. In the same year, we started to engage in distribution of imported toys mainly by sourcing quality ACG figures from overseas toy licensees for resale. In October 2013, we started to cooperate with licensor of a renowned US entertainment brand company (namely Licensor A) and developed our own licensed figures based on a popular US superhero ACG character. We distributed our imported toys and own licensed toys mainly through our local and overseas distributors in the PRC, the US, Japan, Hong Kong, Taiwan and Singapore. We also established our flagship store "千值殿/SEN-TI-DEN", in Hong Kong in 2015.

Sales of ODM toys

Our Group provides ODM services to customers ranging from preparation of product design, mould design and development, production management for prototype, product sample and final product, and provision of fine-tuning advice on product features.

As the preliminary specifications provided to us by customers are generally elementary product ideas or basic descriptions of the expected project features, our in-house and development team would assist our customers in evaluating the feasibility of such ideas and product features. Our Directors believe that our product design and development services are crucial in transforming our customers' product concepts or ideas into design layout and prototype. In view of (i) the market share of our Group in the ACG figure toy ODM service market in Hong Kong; and (ii) our established relationship with Customer Group A since 2005, our Directors believe that this kind of one-stop solutions could not be easily replicated by our competitors.

Distribution of imported toys

During the Track Record Period, we have purchased imported toys from overseas licensees mainly based in Japan and the US. Our in-house design and development team identifies suitable target of imported toys from overseas licensees and evaluate the market response in our intended territories for distribution.

Based on our selection, we may discuss with licensees of the imported toys on potential distributorship arrangement. For further details, please refer to the paragraph headed "Business — Suppliers — Principal terms of engagement" in this prospectus.

SUMMARY

In some cases, if so required by the licensee of toys, we would obtain license rights in respect of certain additional territories in which we intended to distribute the relevant imported toys. For further details, please refer to the paragraph headed “Business — Description of business operations — II. Distribution of imported toys” in this prospectus.

Sales of own licensed toys

Since 2013, our Group started to develop our own licensed toys based on license rights obtained from various licensor of US entertainment and toy brands. As at the Latest Practicable Date, we had the following licensing arrangements with our licensors:

- *Licensor A*: the license rights to develop (i) figures based on over 100 ACG characters featuring in a classic superhero comic series; and (ii) mini-toys and polygon figures (多邊形公仔) based on ACG characters featuring in various animation movie series.
- *Licensor B*: the license rights to develop figures and other products such as pens, toy cars and key rings based on ACG characters featuring in (i) an animated television series; and (ii) a superhero-themed comic book series.
- *Licensor C*: the license rights to develop figures based on ACG characters featuring in a robot-themed comic series.

For further information of our licensors and our licensing arrangements with them, please refer to the paragraph headed “Business — Description of business operations — III. Sale of own licensed toys” in this prospectus.

Brands of our own licensed toys

During the Track Record Period, we have applied the “SENTINEL/千值練”, “TOPI” and “FLAME TOYS” brands in developing our own licensed toys.

Our Directors are aware that Sentinel Japan has applied the “SENTINEL/千值練” brand for the development, marketing and distribution of its licensed toys in Japan. Our Directors consider that our business model is sustainable despite the common use of the “SENTINEL/千值練” brand by our Group and Sentinel Japan in development and sales of licensed products, as discussed in the paragraph headed “Business — Description of business operations — III. Sale of own licensed toys — The brands of our own licensed toys” in this prospectus.

Our product category

Typically, we classify both our ODM toys and imported toys into two main categories, namely (i) premium toys; and (ii) general class toys.

Our premium toys principally consist of ACG figures with articular designs and large number of movable joints and components, and therefore they normally command a relatively higher market selling price. Our general class toys generally comprise (i) ACG figures with limited number of moveable joints and components; and (ii) other related miscellaneous products as such pens and hair ties. Our Directors consider that our general class toys are targeted at mass market consumers, and therefore they normally command a more affordable market selling price.

During the Track Record Period, our own licensed toys developed under the “SENTINEL/千值練” brand included (i) a figures series based on a US superhero ACG character under a previous license agreement with Licensor A ended on 31 December 2016, which was renewed for a term commenced from 1 January 2017 to 31 December 2018; and (ii) a polygon figures (多邊形公仔) series based on a range of classic animation characters developed under a license agreement with Licensor A ended on 30 June 2017, which was renewed for a term commenced from 1 July 2017 to 30 June 2018.

SUMMARY

During the Track Record Period, our own licensed toys developed under the “TOPI” brand comprise (i) a mini-toys figures series based on a range of classic animation characters developed under a license agreement with Licensor A ended on 30 June 2017, which was renewed for the period from 1 July 2017 to 30 June 2018; and (ii) other products (such as pens and toy cars) based on a range of ACG characters featuring in an animated television series and a superhero-themed comic book series of Licensor B.

Please refer to the paragraph headed “Business — Our product category” for a discussion on the major trends in the sales and prices of our products during the Track Record Period.

Our customers

Our major customers primarily include (i) toy licensees or toy intermediaries based in Japan and the US which engaged us to supply ODM toys to them according to their specifications and requirements; and (ii) various distributors of our imported toys and own licensed toys in our major territories such as Hong Kong, Japan, the US, the PRC and Taiwan. Our other customers mainly include retail customers who purchased our imported toys and own licensed toys through our flagship store, online store and consignment sales channels or at toy exhibitions and trade fairs.

We have a total number of three, two and three customers of ODM toys for each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, respectively. Our Group has entered into ODM framework agreements with Customer Group A (including Sentinel Japan and Wing Co., Ltd.), details of which are set out in the paragraph headed “Business — Customers — Principal terms of engagement” in this prospectus.

In respect of our distributors, we have entered into long term distributor agreements with Sentinel Japan, Customer D and certain other distributors with insignificant revenue contribution to us, details of which are set out in the paragraph headed “Business — Customers — Principal terms of engagement” in this prospectus.

For each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, the percentage of our total revenue attributable to our largest customer amounted to approximately 66.9%, 62.4% and 67.7%, respectively, while the percentage of our total revenue attributable to our five largest customers combined amounted to approximately 82.3%, 78.5% and 76.7%, respectively. Our Directors consider that such customer concentration is not uncommon for toy companies and our business is sustainable despite such customer concentration as discussed in the section headed “Business — Customers — Customer concentration”.

Our suppliers

Our suppliers primarily include (i) toy manufacturers based in the Dongguan City of the PRC, to which we outsourced a range of manufacturing processes mainly including manufacturing of moulds, manufacturing, assembling, labelling and packaging of toys and related products; and (ii) overseas toy licensees based in Japan and the US, from which we purchase imported toy and related products for resale.

We have distributorship agreements with three licensees of imported toys (namely Sentinel Japan, Supplier F and Supplier G (both being wholesalers of toys in Japan)), details of which are set out in the paragraph headed “Business — Suppliers — Principal terms of engagement” in this prospectus.

For each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, the percentage of our total purchase from our largest supplier amounted to approximately 54.1%, 48.9% and 50.2% of our total purchases, respectively, while the percentage of our total purchase from our five largest suppliers combined amounted to approximately 94.9%, 92.6% and 86.8% of our total purchase, respectively. Despite such supplier concentration, our Directors consider that we are not overly reliant on any single supplier, as discussed in the section headed “Business — Suppliers — Supplier concentration”.

SUMMARY

Customers who were also our suppliers

During the Track Record Period, D4 Toys, our operating subsidiary which carried out toy distribution, had on occasions purchased imported toys from our ODM customers (i.e. licensees of toys), in which case the toys purchased by D4 Toys were the toys that had been previously sold by Sentinel Hong Kong to the same toy licensees on ODM basis. For further details, please refer to the paragraph headed “Business — Customers — Customers who were also our suppliers” in this prospectus.

Our distributor network

During the Track Record Period, a significant portion of our revenue were derived from sales to distributors in Hong Kong and overseas markets such as the PRC, Japan, the US and Taiwan, etc. For each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, revenue derived from sale of imported toys and/or own licensed toys to our distributors amounted to HK\$31.9 million, HK\$40.0 million and HK\$24.6 million, representing 25.9%, 29.2% and 26.2% of our total revenue for the corresponding periods, respectively. For further information about the arrangements with our distributors, please refer to the paragraph headed “Business — Sales and marketing — Our distributor network” in this prospectus.

Our sales channel

The following table sets forth a breakdown of revenue generated from distribution of imported toys and sales of own licensed toys during the Track Record Period by sales channel:

	For the year ended 31 March				For the nine months	
	2016	2017			ended 31 December	2017
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Distributors ^(Note 1)	31,905	84.8	40,021	75.5	24,582	75.1
Flagship store	1,582	4.2	3,381	6.4	2,153	6.6
Online store	689	1.8	1,427	2.7	532	1.6
Consignment sales channels	104	0.3	1,480	2.8	642	2.0
Others ^(Note 2)	3,349	8.9	6,691	12.6	4,811	14.7
	37,629	100.0	53,000	100.0	32,720	100.0

Notes:

- During the Track Record Period, Customer Group A and Customer Group B were both our ODM customers and distributors. As such, our revenue derived from sales of ODM toys to these two customer groups were classified as sales to ODM customers, while our revenue derived from sales of our imported toys and own licensed toys to these two customer Group were classified as sales to distributors.
- These mainly include sales at toy exhibitions and trade fairs.

COMPETITIVE LANDSCAPE AND OUR COMPETITIVE STRENGTHS

According to the F&S Report, Hong Kong ACG figure toy ODM service suppliers' key roles include product design, prototyping, production and production management, and quality control. Their deals mainly come from brand owners or licensees of relevant figures. The US and Japanese companies are major brand owners in this industry. The ACG figure toy ODM service supplying market in Hong Kong is relatively fragmented with the top five companies together occupying 23.2% of the market share. According to the F&S Report, we ranked fifth among ACG figure toy ODM service suppliers in Hong Kong in terms of share of total industry revenue in 2017.

We believe that our competitive strengths include: (i) working relationship with licensors of renowned US entertainment and toy brands; (ii) established relationship with our largest customer group; (iii) diverse distribution platforms; (iv) various brands for developing our own licensed toys; (v) our ability to carry out one-stop design and distribution for licensed toys; (vi) stringent selection of suppliers and quality control; and (vii) experienced and dedicated management team.

SUMMARY

SALES AND MARKETING

To have a better grasp of the market response, we may launch a pre-ordering process whereby product details and sales information will be provided to our distributors and published at our online store and flagship store in Hong Kong for inviting pre-orders during this period. The pre-ordering process will commence around eight to ten weeks prior to the commencement of production of our own licensed toys or before we place orders for the imported toys. The pre-ordering process generally last for approximately four to five weeks.

During the Track Record Period, we participated in toy exhibitions and trade fairs in various regions such as Hong Kong, Taiwan, Singapore and the United States, at which we display our toys and related products therein and introduce the corporate profile of our Group to visitors. We have also set up a social media platform to provide online visitors with constant update of information about our latest products.

PRICING STRATEGY

The pricing of our ODM toys is determined with reference to various factors, mainly including: (i) the purchase volume from our customers; (ii) our fee quotations obtained from suppliers for toy production; and (iii) our overhead costs. The pricing of our imported toys is determined with reference to various factors, mainly including: (i) the expected wholesale and retail price of the toys recommended by our toy licensees; (ii) the purchase cost of the imported toys from the toy licensees; (iii) license fees incurred by our Group (if applicable) and (iv) our overhead costs. The pricing of our own licensed toys is determined with reference to various factors, mainly including: (i) the license fees incurred by our Group in obtaining the license rights of relevant ACG characters; (ii) the production cost of the finished products and the moulds; (iii) expected quantity of the toys to be sold; and (iv) our overhead costs. As a general policy, the wholesale price of our imported toys and own licensed toys is generally priced at a discount of approximately 40% to our own retail price.

RISK FACTORS

Potential investors are advised to carefully read the section headed “Risk factors” in this prospectus before making any investment decision in the Offer Shares. Some of the more particular risk factors include the following: (i) we are reliant on sales of ODM toys to our largest customer group and any significant decrease in the business volume from our largest customer group may materially and adversely affect our financial condition and operating results; (ii) save for the right of first offer granted by Customer Group A, we do not have long-term purchase commitment from our customers and there is no guarantee that our customers will provide us with new business; (iii) developments adverse to our major customers could have an adverse effect on us; (iv) failure to protect the intellectual property rights of our Group and/or our customers may adversely affect our business and results of operations; (v) we rely on our suppliers and reduction in amount of supplies or termination of our business relationships by these suppliers may adversely affect our operating results and financial performance; (vi) we derive a significant portion of our revenue from sales of imported toys and our own licensed toys to distributors. Termination or discontinuation of business relationship with, significant decrease in purchase from, or developments adverse to, our Group’s distributors could have a material and adverse effect on us; and (vii) failure to renew existing license rights and/or obtain new license rights for our own licensed toys will have adverse impact on financial performance on our Group.

OUR RELATIONSHIP WITH SENTINEL JAPAN

By around mid-2006, Mr. Li invited two Japanese individuals (the “**Japanese Individuals**”) to be co-founders of Sentinel Hong Kong due to their familiarity with the ACG figure toy industry in Japan and connections with Japanese licensors. In December 2008, Mr. Li and the Japanese Individuals established Sentinel Hong Kong, each holding one-third of the shareholdings, with the original plan to develop and distribute its own licensed toys based on Japanese ACG characters. However, Sentinel Hong Kong failed to obtain the license rights of Japanese ACG characters from Japanese licensors due to the reason that the Japanese licensors prefer to keep the license rights of their ACG characters to companies which are wholly-owned by Japanese. The Japanese Individuals therefore transferred their shareholdings in Sentinel Hong Kong to Mr. Li in August 2009 and set up their own business venture in Japan for obtaining license rights of Japanese ACG characters from Japanese licensors to develop own licensed toys based on Japanese ACG characters and carry out wholesale of toys in Japan. For further details, please refer to the section headed “History, reorganisation and corporate structure” in this prospectus.

SUMMARY

During the Track Record Period, Sentinel Japan has the following business relationships with our Group being (i) our ODM customer (being a member of Customer Group A); (ii) our supplier of imported toys (being a member of Supplier Group C); and (iii) our distributor of our own licensed toys in Japan. For further details about these relationships, please refer to the paragraphs headed “Customers — Principal terms of engagement”, “Customers — Our relationship with Sentinel Japan”, “Customers — Customers who were also our suppliers”, “Suppliers — Principal terms of engagement”, “Sales and marketing — Our distributor network — Relationship with Sentinel Japan as our distributor and its sub-distributor” under the “Business” section in this prospectus.

KEY OPERATIONAL AND FINANCIAL DATA AND FINANCIAL RATIOS

Revenue by product category

The table below sets forth a breakdown of the revenue, sales volume and average selling price of our products during the Track Record Period by product category:

Product category	For the year ended 31 March						For the nine months ended 31 December									
	2016			2017			2016 (unaudited)			2017						
	Revenue HK\$'000	Sales volume Unit	Average selling price HK\$	Revenue HK\$'000	Sales volume Unit	Average selling price HK\$	Revenue HK\$'000	Sales volume Unit	Average selling price HK\$	Revenue HK\$'000	Sales volume Unit	Average selling price HK\$				
Sales of ODM toys																
Premium ODM toys	11,276	9.2	54,737	206.0	8,432	6.2	26,213	321.7	4,796	4.5	10,622	451.5	4,344	4.6	10,839	400.8
General class ODM toys	53,105	43.1	1,172,751	45.3	55,222	40.3	1,342,452	41.1	44,973	42.2	1,187,869	37.9	40,728	43.4	1,240,475	32.8
Moulds for ODM toys	21,144	17.2	60	352,396.1	20,234	14.8	69	293,244.1	15,749	14.8	54	291,657.3	16,210	17.2	59	274,739.1
Distribution of imported toys																
Premium imported toys	15,720	12.8	14,187	1,108.1	14,563	10.6	10,728	1,357.4	13,949	13.1	12,006	1,161.9	9,934	10.6	6,869	1,446.2
General class imported toys	6,955	5.6	29,453	236.1	13,017	9.5	74,142	175.6	9,949	9.3	54,956	181.0	6,326	6.7	26,465	239.0
Sales of own licensed toys																
“SENTINEL/千值樂” brand toys	12,649	10.3	14,490	872.9	19,645	14.4	25,460	771.6	12,734	12.0	17,072	745.9	9,231	9.8	12,762	723.4
- “SENTINEL/千值樂” brand superhero figures	12,649	10.3	14,490	872.9	18,432	13.5	17,343	1,062.8	11,811	11.1	10,812	1,092.4	8,382	8.9	7,963	1,052.7
- “SENTINEL/千值樂” brand polygon figures	Nil	Nil	Nil	Nil	1,213	0.9	8,117	149.5	923	0.9	6,260	147.4	849	0.9	4,799	177.0
“TOP” brand toys	2,305	1.8	82,098	28.1	5,775	4.2	173,504	33.3	4,388	4.1	125,494	35.0	4,104	4.4	65,109	63.0
“FLAME TOYS” brand toys	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	3,125	3.3	1,843	1,695.4
Total	123,154	100.0	1,367,776		136,888	100.0	1,652,568		106,538	100.0	1,408,073		94,002	100.0	1,364,421	

SUMMARY

The following is a summary of the consolidated statements of profit or loss and other comprehensive income of our Group for the Track Record Period extracted from the accountants' report, the text of which is set out in Appendix I to this prospectus. This summary should be read in conjunction with the accountants' report as set out in Appendix I to this prospectus.

	For the year ended 31 March		For the nine months ended 31 December	
	2016	2017	2016 (unaudited)	2017
Revenue (HK\$'000)	123,154	136,888	106,538	94,002
Gross profit (HK\$'000)	32,212	40,122	30,577	27,010
Gross profit margin	26.2%	29.3%	28.7%	28.7%
Profit and total comprehensive income for the year (HK\$'000)	18,259	11,272	12,001	11,241
Net profit margin	14.8%	8.2%	11.3%	12.0%
Net cash generated from/(used in) operating activities	29,409	(6,586)	(5,447)	1,876

Gross Profit and Gross Profit Margin

The following table sets forth our gross profit and gross profit margin by business segments for Track Record Period:

	For the year ended 31 March			For the nine months ended 31 December				
	2016		2017	2016 (unaudited)		2017		
	Gross profit (HK\$'000)	Gross profit margin (%)	Gross profit (HK\$'000)	Gross profit margin (%)	Gross profit (HK\$'000)	Gross profit margin (%)	Gross profit (HK\$'000)	Gross profit margin (%)
Sales of ODM toys	19,023	22.2	19,848	23.7	14,933	22.8	14,599	23.8
Distribution of imported toys	6,592	29.1	8,913	32.3	8,049	33.7	5,048	31.0
Sales of own licensed toys	6,597	44.1	11,361	44.7	7,595	44.4	7,363	44.7
Overall	<u>32,212</u>	26.2	<u>40,122</u>	29.3	<u>30,577</u>	28.7	<u>27,010</u>	28.7

You may refer to the paragraph headed "Financial information — Management discussion and analysis — Gross Profit and Gross Profit Margin" in this prospectus for details.

Key Financial Ratios

The following table sets out major financial ratios for our Group during the Track Record Period:

	As at/For the year ended 31 March		As at/For the nine months ended 31 December	
	2016	2017	2016	2017
Return on equity	34.8%	18.9%	17.3%	17.3%
Return on assets	19.4%	12.9%	12.3%	12.3%
Current ratio (unit: times)	1.8	2.4	2.6	2.6
Gearing ratio ^(Note)	13.5%	11.3%	10.2%	10.2%
Debt to equity ratio	Nil	Nil	Nil	Nil
Interest coverage (unit: times)	299.6	140.3	175.5	175.5

SUMMARY

Note:

Gearing ratio is calculated as the total debt divided by total equity. For the avoidance of doubt, total debt includes bank borrowing and finance lease obligation.

You may refer to the paragraph headed “Financial information — Other key financial ratios” in this prospectus for details.

As for the year ended 31 March 2016, revenue and gross profit of our group was approximately HK\$123.2 million and HK\$32.2 million, respectively. Our sales of ODM toys, distribution of imported toys and sales of own licensed toys contributed approximately 69.5%, 18.4% and 12.1% respectively of the total revenue for the year ended 31 March 2016. Net profit and net profit margin of our Group for the year ended 31 March 2016 was approximately HK\$18.3 million and 14.8%, respectively.

As for the year ended 31 March 2017, revenue and gross profit of our group was approximately HK\$136.9 million and HK\$40.1 million, respectively. Our sales of ODM toys, distribution of imported toys and sales of own licensed toys contributed approximately 61.3%, 20.1% and 18.6% respectively of the total revenue for the year ended 31 March 2017. Profit and total comprehensive income for the year and net profit margin of our Group for the year ended 31 March 2017 was approximately HK\$11.3 million and 8.2%, respectively.

As for the nine months ended 31 December 2016, revenue and gross profit of our Group was approximately HK\$106.5 million and HK\$30.6 million, respectively. Our sales of ODM toys, distribution of imported toys and sales of own licensed toys contributed approximately 61.5%, 22.4% and 16.1% respectively of the total revenue for the nine months ended 31 December 2016. Profit and total comprehensive income for the year and net profit margin of our Group for the nine months ended 31 December 2016 was approximately HK\$12.0 million and 11.3%, respectively.

As for the nine months ended 31 December 2017, revenue and gross profit of our Group was approximately HK\$94.0 million and HK\$27.0 million, respectively. Our sales of ODM toys, distribution of imported toys and sales of own licensed toys contributed approximately 65.2%, 17.3% and 17.5% respectively of the total revenue for the nine months ended 31 December 2017. Profit and total comprehensive income for the year and net profit margin of our Group for the nine months ended 31 December 2017 was approximately HK\$11.2 million and 12.0%, respectively.

The increase in gross profit margin of approximately 3.1 percentage point for the year ended 31 March 2017 as compared to the year ended 31 March 2016 was mainly due to (i) the increase in gross profit margin of all business segments of our Group for the year ended 31 March 2017 in compared to the year ended 31 March 2016; and (ii) the increase in the portion of sales of own licensed toys and distribution of imported toys which have higher gross profit margins in compared with sales of ODM toys. The decrease of our net profit margin of approximately 6.6 percentage point for the year ended 31 March 2017 as compared to the year ended 31 March 2016 primarily due to the combined effect of the increase in expenses accrued and paid to professional parties related to the Listing outpacing the increase in gross profit.

Our gross profit margin remained stable at approximately 28.7% for the nine months ended 31 December 2016 and the nine months ended 31 December 2017. The increase of our net profit margin of approximately 0.7 percentage points for the nine months ended 31 December 2017 as compared to the nine months ended 31 December 2016 primarily due to combined effect of larger proportionate decrease in revenue than decrease in net profit margin which were attributable to (i) the increase in other net income of approximately HK\$2.1 million; (ii) the decrease in listing expenses of approximately HK\$1.2 million; and (iii) increase in valuation gain on investment property of approximately HK\$0.4 million.

The net cash used in operating activities was approximately HK\$6.6 million for the year ended 31 March 2017. The amount was derived from our Group’s profit before tax of approximately HK\$15.7 million, mainly positively adjusted for depreciation of approximately HK\$5.0 million; and mainly negatively adjusted for (i) tax paid of approximately HK\$7.5 million; (ii) increase in inventories of approximately HK\$1.5 million which was mainly attributable to the increase in inventories of one type of general

SUMMARY

class imported toys in order to cater for our sales; (iii) decrease in trade and other payables of approximately HK\$9.0 million which was mainly due to the late billing by our suppliers during the year ended 31 March 2016; (iv) increase in trade and other receivables of approximately HK\$8.0 million which was mainly due to (a) the increase in revenue, (b) the issue of an invoice to Customer C in March 2017 with the credit term ranging from 30 days to 60 days and (c) increase in prepayment of listing expenses; and (v) valuation gain on investment property of approximately HK\$1.4 million.

Our Group's net cash generated from operating activities decreased from approximately HK\$29.4 million for the year ended 31 March 2016 to net cash flow used in operating activities of approximately HK\$6.6 million. The decrease is due to (i) decrease of profit before taxation of approximately HK\$6.4 million; (ii) decrease in trade and other payables of approximately HK\$20.4 million which was mainly due to late billing by our suppliers in the year ended 31 March 2016 which subsequently settled in the year ended 31 March 2017; (iii) the increase of increase in trade and other receivables of approximately HK\$3.2 million which was mainly due to additional amounts due from customers; and (iv) increase in income tax paid of approximately HK\$6.6 million paid for the year ended 31 March 2017.

The net cash generated from operating activities was approximately HK\$1.9 million for the nine months ended 31 December 2017. The amount was derived from our Group's profit before tax of approximately HK\$14.1 million, mainly positively adjusted for (i) depreciation of approximately HK\$2.3 million; (ii) decrease in inventories of approximately HK\$1.1 million which was mainly due to write down of inventories; and (iii) increase in trade and other payable of approximately HK\$0.5 million; and mainly negatively adjusted for (i) increase in trade and other receivables of approximately HK\$8.7 million which was mainly attributable to commencement of sales of an ACG figure series under the "FLAME TOYS" brand in December 2017; and (ii) valuation gain on investment property of approximately HK\$1.0 million.

The decrease in the sales of own licensed toys in the year ended 31 March 2018 of approximately HK\$5.7 million as compared to the year ended 31 March 2017 was mainly due to the relatively significant amount of sales recognised for one of the figures (featuring armor fit and accessories) based on a US superhero character of Licensor A (the "Armored Superhero Figures") in the year ended 31 March 2017. In particular, this figure was formally launched for sales in March 2016, and contributed to revenue of approximately HK\$5.0 million for the year ended 31 March 2017. This Armored Superhero Figures was sold out in July 2016, and hence no revenue has been recognised therefrom in the year ended 31 March 2018.

CONTROLLING SHAREHOLDERS

Immediately following completion of the Capitalisation Issue and the Share Offer, without taking into account any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, our Company will be owned as to 63.75% by Infinite Force, which is wholly-owned by Mr. Li. As Infinite Force and Mr. Li are directly or indirectly entitled to exercise or control the exercise of 30% or more of the voting power at general meetings of our Company immediately following the Listing, each of Infinite Force and Mr. Li shall be regarded as a Controlling Shareholder within the meaning of the GEM Listing Rules.

PRE-IPO INVESTMENT

New Express is a limited company incorporated in Hong Kong and wholly owned by China Investment and Finance Group Limited ("CIF"), an investment company whose shares are listed on the Stock Exchange pursuant to Chapter 21 of the Rules Governing the Listing of Securities on the Stock Exchange (stock code: 1226) with focus on investments in small to medium size listed companies in Hong Kong.

On 20 April 2016, New Express decided to invest in our Group by entering into a sale and purchase agreement with Mr. Li, pursuant to which New Express conditionally agreed to purchase 1,500 shares of Amuse, representing 15% of the issued share capital of Amuse, from Mr. Li at a consideration of HK\$9,000,000. It is expected that our Company will be owned as to 11.25% by New Express upon Listing. For further information, please refer to the paragraph headed "History, reorganisation and corporate structure — Pre-IPO Investment" in this prospectus.

REGULATORY COMPLIANCE

There have been instances of non-compliance with certain Hong Kong regulatory requirements by our Group including the Inland Revenue Ordinance in respect of (i) failure to make full payment of tax by the due dates; and (ii) failure to file profits tax returns by the due dates.

SUMMARY

APPLICATION FOR THE SHARE OFFER

The application for the Share Offer will commence on Friday, 18 May 2018 through Thursday, 24 May 2018, being slightly longer than normal market practice of four days. The application monies (including the brokerages, SFC transaction levies and Stock Exchange trading fees) will be held by the receiving bank on behalf of the Company and the refund monies, if any, will be returned to the applicants without interest on Wednesday, 30 May 2018. Investors should be aware that the dealings in the Shares on the Stock Exchange are expected to commence on Thursday, 31 May 2018.

OFFERING STATISTICS

Number of the Offer Shares	250,000,000 Shares	
Offer Price	Not more than HK\$0.35 per Offer Share and expected to be not less than HK\$0.25 per Offer Share	
	Based on the indicative Offer Price of HK\$0.25 per Share	Based on the indicative Offer Price of HK\$0.35 per Share
Market capitalisation Unaudited pro forma adjusted consolidated net tangible assets per Share attributed to the Shareholders ^(Note)	HK\$250,000,000	HK\$350,000,000
	HK\$0.12	HK\$0.15

Note: No adjustment has been made to the unaudited pro forma consolidated net tangible assets of our Group as at 31 December 2017 to reflect any trading results or other transactions of our Group entered into subsequent to 31 December 2017.

LISTING EXPENSES

The total amount of expenses in relation to the Listing is approximately HK\$26.3 million, of which approximately HK\$8.3 million is directly attributable to the issue of the Offer Shares and is expected to be capitalised and accounted for as a deduction from equity upon Listing. The remaining amount of approximately HK\$18.0 million, which cannot be so capitalised and accounted for, were or are expected to be recognised in our consolidated statements of profit or loss and other comprehensive income, of which (i) approximately HK\$12.5 million and HK\$3.8 million has been charged during the year ended 31 March 2017 and the nine months ended 31 December 2017, respectively; (ii) approximately HK\$0.7 million was incurred in the three months ended 31 March 2018 according to the unaudited management accounts for the three months ended 31 March 2018; and (iii) approximately HK\$1.0 million is expected to be incurred in the year ending 31 March 2019.

BUSINESS STRATEGIES AND USE OF PROCEEDS

Our key business strategies are (i) expanding the product portfolio of our own licensed toys; (ii) enhancing our overseas distribution network; (iii) further strengthening our manpower; and (iv) further enhancing our information technology system. The net proceeds to be received by us from the Share Offer based on the Offer Price of HK\$0.30 per Offer Share (being the mid-point of the indicative Offer Price range), after deducting related expenses to be borne by us, are estimated to be approximately HK\$48.7 million. Our Directors presently intend that the net proceeds will be applied as follows: (i) approximately HK\$38.8 million (approximately 79.8% of the net proceeds) for expanding our product portfolio of own licensed toys; (ii) approximately HK\$3.1 million (approximately 6.3% of the net proceeds) for enhancing our overseas distribution network; (iii) approximately HK\$5.0 million (approximately 10.3% of the net proceeds) for further strengthening our manpower; and (iv) approximately HK\$1.8 million (approximately 3.6% of the net proceeds) for further enhancing our information technology system and performing warehouse renovation.

SUMMARY

DIVIDEND

For the year ended 31 March 2016, our Group's subsidiaries had declared interim dividends in the total amounts of HK\$10.0 million to their then shareholder. The amounts were settled by cash. For the year ended 31 March 2017, our Group's subsidiaries had declared interim dividends in the amounts of HK\$4.0 million to their then shareholder. The amounts were settled through amount due from a director on 31 December 2016. In June 2017, our Group's subsidiaries had declared interim dividends of HK\$6.0 million and such interim dividends will be settled before the Listing. Our Company currently does not have a fixed dividend policy. For further details, please refer to the paragraph headed "Financial information — Dividend" in this prospectus.

RECENT DEVELOPMENT AND MATERIAL ADVERSE CHANGE

Our business model and cost structure remain largely unchanged subsequent to the Track Record Period. Subsequent to the Track Record Period and up to the Latest Practicable Date, we continued to carry out (i) sales of ODM toys; (ii) distribution of imported toys; and (iii) sales of own licensed toys.

In August 2017, we had launched sales for a series of mini-figures based on a range of ACG characters featuring in a superhero-themed comic book series based on our license agreement with Licensor B. Our new figures series based on a US superhero ACG character under the renewed license agreement with Licensor A was launched for sales under the "SENTINEL/千值練" brand in October 2017. In December 2017, we launched a figure based on new items to an ACG character featuring in a robot-themed comic series based on our license agreement with Licensor C under the "FLAME TOYS" brand.

After the Track Record Period and up to the Latest Practicable Date, we have continued to put on sale our existing series of own licensed ACG figures based on our available licenses. For our "TOPI" brand, we launched five existing figures series based on a range of ACG characters featuring in a superhero-themed comic book series under our license agreement with Licensor A in early 2018.

To promote our toy brands and to further expand our own licensed product portfolio, going forward, (i) we intend to introduce, under the "SENTINEL/千值練" brand, new items to our existing popular figures series based on a ACG character featuring in a classic superhero comic series under a license agreement with Licensor A; (ii) we intend to introduce, under our "TOPI" brand, new items to mini-toys and figures series based on a range of classic animation characters of Licensor A, and toy cars series based on a range of ACG characters featuring in an animated television series of Licensor B; and (iii) we intend to develop, under the "FLAME TOYS" Brand, one new mini-toys lines based on the robot-themed ACG characters, with one additional robot-themed ACG character joining the cast, under the license agreement with Licensor C and to develop two new figures lines based on ACG characters featuring in a range of classic animation characters and a classic superhero comic series under the license agreements with Licensor A. The aforesaid series are scheduled to be launched for sales by 31 March 2019.

Save as the expenses of approximately HK\$0.7 million was incurred in connection with the Listing for the remaining period of the year ended 31 March 2018, our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2017 (being the date to which the latest audited consolidated financial statements of our Group were made up) and up to the date of this prospectus.

Based on our Group's unaudited management accounts for the year ended 31 March 2018, excluding listing expenses, our Group's net profit decreased from approximately HK\$23.8 million for the year ended 31 March 2017 to approximately HK\$21.3 million for the year ended 31 March 2018, representing a decrease of approximately 10.4%. The decrease is mainly due to (i) the decrease of revenue of approximately HK\$4.7 million mainly attributable to the decrease of sales of own licensed toy; and (ii) the increase of administrative expenses of approximately HK\$0.8 million mainly attributable to the increase in salary and number of staff; and partially offset by the increase of other income of approximately HK\$1.8 million mainly attributable to rental income of invested property.

SUMMARY

In view of the popularity of the Armored Superhero Figures, our Group expects to launch the new Armored Superhero Figures in December 2018. In line with our typical practice, we would conduct the pre-ordering of our own licensed toys three months prior to the formal launch of the products. As at the Latest Practicable Date, we have already submitted our product proposal and design for the new Armored Superhero Figures for Licensor A's approval, and target to conduct the pre-ordering sales of the new Armored Superhero Figures in September 2018. The expected sales quantity and amount of our new Armored Superhero Figures are determined with reference to the sales performance of figures related to the same ACG figures in the past. In particular, in the second quarter of the year of 2015, a movie featuring various superheroes, including the Armored Superhero, was launched in April 2015. Subsequently, we have launched our Armored Superhero Figures in the second quarter of the year of 2016. Such Armored Superhero Figures had contributed a total revenue of approximately HK\$8.7 million to us during the Track Record Period. As a sequel of the same movie was launched in April 2018, we have intended to launch a new line of Armored Superhero Figures in December 2018. Therefore, our Directors are confident that the sales performance of the new Armored Superhero Figures will be consistent with the historical financial performance of our similar figures.

PROFIT ESTIMATE FOR THE YEAR ENDED 31 MARCH 2018

On the bases as set out in Appendix III to this prospectus and in the absence of unforeseen circumstances, our key profit estimate data for the year ended 31 March 2018 are set out below:

Estimated consolidated profit attributable to
the equity shareholders of our Company
for the year ended 31 March 2018 not less than
HK\$15.0 million

Unaudited estimated earnings per Share on a pro forma basis
for the year ended 31 March 2018 ^(Note) not less than
HK\$0.015

Note: The unaudited estimated earnings per Share on a pro forma basis is calculated by dividing the estimated consolidated profit attributable to the equity shareholders of our Company for the year ended 31 March 2018 by 1,000,000,000 Shares as if such Shares had been issued throughout the Track Record Period. The number of Shares used in this calculation includes the Shares in issue as at the date of this prospectus and the Shares to be issued pursuant to the Share Offer, excluding any Shares which may be allotted and issued pursuant to the exercise of any options that may be granted under the Share Option Scheme.

REASONS FOR LISTING

Our Directors believe that the listing of the Shares on GEM will facilitate the implementation of our business strategies, as stated in the section headed "Business — Business strategies" in this prospectus. A public listing status will also enhance our corporate profile and recognition and assist us in reinforcing our brand awareness and image. We believe that a public listing status on GEM could attract potential customers and suppliers who are more willing to establish business relationship with listed companies. The Share Offer will also enable our Group to have access to capital market for raising funds both at the time of Listing and at later stages, which would in turn assist us in the future business development of our Group. We also believe that our internal control and corporate governance practices could be further enhanced following the Share Offer.

DEFINITIONS AND GLOSSARY

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

“ACG”	an abbreviation for animations, comics and games
“Amuse”	Amuse International Investment Ltd. (佰悅國際投資有限公司), a company incorporated in the BVI with limited liability on 20 October 2015 and a direct wholly-owned subsidiary of our Company
“Application Form(s)”	WHITE Application Form(s) and YELLOW Application Form(s), or where the context so requires, any of them that are used in connection with the Public Offer
“Articles” or “Articles of Association”	the articles of association of our Company, conditionally adopted on 11 May 2018 with effect from the Listing Date and as amended from time to time, a summary of which is set forth in Appendix V to this prospectus
“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Bestone Creative”	Bestone Creative Development Limited (盈天創意發展有限公司), a company incorporated in Hong Kong with limited liability on 6 September 2004, which is an indirect wholly-owned subsidiary of our Company
“Board”	our board of Directors
“Business Day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business to the public
“BVI”	the British Virgin Islands
“CAGR”	compounded annual growth rate
“Capitalisation Issue”	the issue of 749,980,000 Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in the paragraph headed “A. Further information about our Company and our subsidiaries — 3. Written resolutions of our Shareholders passed on 11 May 2018” in Appendix VI to this prospectus

DEFINITIONS AND GLOSSARY

“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant(s)”	a person permitted to participate in CCASS as a direct participant or a general clearing participant
“CCASS Custodian Participant(s)”	a person permitted to participate in CCASS as a custodian participant
“CCASS Investor Participant(s)”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Operational Procedures”	the operational procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Chairman”	the chairman of our Board, Mr. Li
“close associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Co-Lead Manager(s)”	AFG Securities Limited, Astrum Capital Management Limited, Taijin Securities and Futures Limited and Wellington Financial Limited, being the co-lead managers to the Share Offer
“Companies Law” or “Cayman Companies Law”	the Companies Law (as revised) of the Cayman Islands, as amended, modified and supplemented from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, modified and supplemented from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, modified and supplemented from time to time

DEFINITIONS AND GLOSSARY

“Company” and “our Company”	Amuse Group Holding Limited (佰悅集團控股有限公司) a company incorporated in the Cayman Islands as an exempted company with limited liability on 16 November 2016
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules and in the context of our Company and for the purpose of this prospectus, means Mr. Li and Infinite Force
“core connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Customer Group A”	it collectively refers to Sentinel Japan and Wing Co., Ltd.
“D4 Oversea”	D4 Toys (oversea) Co., Ltd., a company incorporated in the BVI with limited liability on 16 December 2016, which is an indirect wholly-owned subsidiary of our Company
“D4 Toys”	D4 Toys Co., Limited, a company incorporated in Hong Kong with limited liability on 11 November 2010, which is an indirect wholly-owned subsidiary of our Company
“Deed of Indemnity”	the deed of indemnity dated 11 May 2018 entered into by our Controlling Shareholders in favour of our Company (for itself and on behalf of our subsidiaries) as further detailed in the paragraph headed “E. Other information — 1. Tax and other indemnities” in Appendix VI to this prospectus
“Deed of Non-competition”	the deed of non-competition dated 11 May 2018 entered into by our Controlling Shareholders in favour of our Company (for itself and on behalf of our subsidiaries) as further detailed in the section headed “Relationship with our Controlling Shareholders” in this prospectus
“Director(s)”	the director(s) of our Company
“Dongguan City”	Dongguan City, Guangdong Province of the PRC

DEFINITIONS AND GLOSSARY

“figure”	a toy figure with jointed, movable limbs, representing an ACG character
“free-carrier”	a trade term which means that title and risks pass to the buyer including payment of all transportation and insurance costs once delivered to a specified destination by the seller
“free-on-board”	a trade term which means that title and risks pass to the buyer including payment of all transportation and insurance cost once delivered on board a vessel by the seller
“Frost & Sullivan”	Frost & Sullivan International Limited, an independent market research agent
“Frost and Sullivan Report” or “F&S Report”	the market research report titled Independent Market Research — China, Hong Kong and Japan ACG Figure Toy Market Study commissioned by us and prepared by Frost & Sullivan, contents of which are summarised in the section headed “Industry overview” of this prospectus
“GDP”	gross domestic product
“GEM”	GEM operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, as amended, modified and supplemented from time to time
“General Rules of CCASS”	the terms and conditions regulating the use of CCASS, as may be amended or modified from time to time and where the context so permits, shall include the CCASS Operational Procedures
“Group”, “we”, “us” or “our Group”	our Company and its subsidiaries at the relevant time or, where the context otherwise requires, in respect of the period before our Company became the holding company of its present subsidiaries pursuant to the Reorganisation
“HKFRSs”	the Hong Kong Financial Reporting Standards issued by the HKICPA

DEFINITIONS AND GLOSSARY

“HKICPA”	the Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited
“HK\$”, “Hong Kong dollars” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited, our Hong Kong branch share registrar and transfer office
“Hong Kong Government”	the government of Hong Kong
“imported toy”	it refers to, for the purpose of this prospectus, licensed toy which is sourced from overseas toy licensee into Hong Kong
“independent third party(ies)”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the GEM Listing Rules) any Directors, chief executive or Substantial Shareholders of our Company, its subsidiaries or any of their respective associates and not otherwise a connected person of our Company
“Infinite Force”	Infinite Force Holdings Limited, a company incorporated in the BVI with limited liability on 18 October 2016 and wholly owned by Mr. Li, which is a Controlling Shareholder
“Japanese Yen” or “JYP”	Japanese Yen, the lawful currency of Japan
“Joint Global Coordinator(s)”, “Joint Bookrunner(s)” or “Joint Lead Manager(s)”	Alpha Financial Group Limited and Quasar Securities Co., Limited, being the joint global coordinators, joint bookrunners and the joint lead managers to the Share Offer

DEFINITIONS AND GLOSSARY

“Lai Ga”	Lai Ga Toys Co. Limited (禮嘉玩具有限公司), a company incorporated in Hong Kong with limited liability on 16 November 2006, which is an indirect wholly-owned subsidiary of our Company
“Latest Practicable Date”	11 May 2018, being the latest practicable date prior to the printing of this prospectus for the purposes of ascertaining certain information in this prospectus prior to its publication
“Legal Counsel”	Ms. Queenie W.S. Ng, barrister-at-law of Hong Kong
“license fees”	it refers to, for the purpose of this prospectus, the fees paid by a licensee to a licensor in exchange for the grant of rights to use specified intellectual property
“licensed toy”	it refers to, for the purpose of this prospectus, toy product which is developed under the license rights of specified intellectual property
“licensee”	it refers to, for the purpose of this prospectus, an individual or entity to whom license rights are granted in relation to the use of specified intellectual property
“licensor”	it refers to, for the purpose of this prospectus, an individual or entity who grants license rights in relation to the use of specified intellectual property
“Listing”	the listing of our Shares on GEM
“Listing Date”	the date, expected to be on or about Thursday, 31 May 2018, on which dealings in our Shares first commence on GEM
“Listing Division”	The Listing Division of the Stock Exchange (with responsibility for GEM)
“Macau”	the Macau Special Administrative Region of the PRC
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company conditionally adopted on 11 May 2018 with effect from the Listing Date and as amended from time to time

DEFINITIONS AND GLOSSARY

“Moon One”	Moon One Toys Co., Limited (月一玩具有限公司), a company incorporated in Hong Kong with limited liability on 27 October 2015, which is an indirect wholly-owned subsidiary of our Company
“mould”	it refers to, for the purpose of this prospectus, an object which enables mass production of products by injecting materials into its cavity for configuration
“Mr. Li”	Mr. Li Wai Keung (李偉強), being our Chairman, an executive Director, our chief executive officer and a Controlling Shareholder
“New Express”	New Express Investment Limited (新通投資有限公司), a company incorporated in Hong Kong on 22 November 2013 with limited liability and a wholly-owned subsidiary of the China Investment and Finance Group Limited, the shares of which are listed on the Stock Exchange (stock code: 1226) with principal business of securities trading and investment holding. New Express is one of our Substantial Shareholders
“ODM”	original design manufacturing
“OEM”	original equipment manufacturing
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK\$0.35 per Share and expected to be not less than HK\$0.25 per Share at which the Offer Shares are to be offered under the Share Offer, to be determined in the manner as set out in the section headed “Structure and conditions of the Share Offer” of this prospectus
“Offer Share(s)”	collectively, the Placing Shares and the Public Offer Shares
“Placing”	the conditional placing by the Placing Underwriter(s) on behalf of our Company of the Placing Shares for cash at the Offer Price, as further described under the section headed “Structure and conditions of the Share Offer” in this prospectus

DEFINITIONS AND GLOSSARY

“Placing Shares”	the 225,000,000 Shares being initially offered by our Company for subscription under the Placing subject to reallocation, as described under the section headed “Structure and conditions of the Share Offer” of this prospectus
“Placing Underwriter(s)”	the underwriter(s) that is/are expected to enter into the Placing Underwriting Agreement to underwrite the Placing Shares
“Placing Underwriting Agreement”	the underwriting agreement expected to be entered into on or around Thursday, 24 May 2018 by, among others, our Company, our Controlling Shareholders, our executive Directors, the Sponsor and the Placing Underwriter(s) relating to the Placing
“PRC” or “China”	the People’s Republic of China excluding, for the purpose of this prospectus, Hong Kong, Macau and Taiwan
“Pre-IPO Investment”	the pre-IPO investment by New Express, as further detailed in the section headed “History, reorganisation and corporate structure — Pre-IPO investment” in this prospectus
“Predecessor Companies Ordinance”	the predecessor Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before 3 March 2014
“Price Determination Agreement”	the agreement expected to be entered into between the Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the Price Determination Date to record the agreement on the Offer Price
“Price Determination Date”	the date expected to be on or around Thursday, 24 May 2018, on which the Offer Price will be determined for the purpose of the Share Offer
“prototype”	an original model on which a toy product is patterned
“Public Offer”	the issue and offer of the Public Offer Shares for subscription in Hong Kong at the Offer Price on and subject to the terms and conditions described in this prospectus and the Application Forms

DEFINITIONS AND GLOSSARY

“Public Offer Shares”	the 25,000,000 Shares (subject to reallocation) initially offered by our Company for subscription in the Public Offer, as described under the section headed “Structure and conditions of the Share Offer” of this prospectus
“Public Offer Underwriter(s)”	the underwriter of the Public Offer, whose name(s) is/are set out under the section headed “Underwriting — Public Offer Underwriter” of this prospectus
“Public Offer Underwriting Agreement”	the underwriting agreement dated Thursday, 17 May 2018 entered into among our Company, our Controlling Shareholders, our executive Directors, the Sponsor, the Joint Global Coordinators and the Public Offer Underwriter(s) relating to the Public Offer
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganisation”	the corporate reorganisation arrangements implemented by our Group in preparation for the Listing which is more particularly described in the section headed “History, reorganisation and corporate structure” in this prospectus
“RMB”	Renminbi, the lawful currency of the PRC
“Sentinel Hong Kong”	Sentinel International Co. Limited (千值練國際有限公司), a company incorporated in Hong Kong with limited liability on 5 December 2008, which is an indirect wholly-owned subsidiary of our Company
“Sentinel Japan”	Sentinel Co., Ltd., a company established in Japan on 17 July 2009, which is a customer and a supplier of our Group during the Track Record Period
“Sentinel US”	Sentinel International (US) Company Limited, a company incorporated in the U.S. with limited liability on 24 January 2017, which is an indirect wholly-owned subsidiary of our Company
“SFC” or “Securities and Futures Commission”	the Securities and Futures Commission of Hong Kong

DEFINITIONS AND GLOSSARY

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, modified and supplemented from time to time
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.01 each in the share capital of our Company, which are to be traded in HK dollars and listed on GEM
“Share Offer”	the Public Offer and the Placing
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 11 May 2018, the principal terms of which are summarised in the paragraph headed “D. Share Option Scheme” in Appendix VI to this prospectus
“Shareholder(s)”	holder(s) of our Shares
“Sponsor” or “Ample Capital”	Ample Capital Limited, a licensed corporation to engage in type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, the sponsor of the Listing
“sq. ft.”	square foot (feet)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the GEM Listing Rules
“Substantial Shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, modified and supplemented from time to time
“toy intermediary”	it refers to entity which is engaged by toy licensee to source toy products
“Track Record Period”	the two years ended 31 March 2017 and the nine months ended 31 December 2017
“Underwriter(s)”	the Public Offer Underwriter(s) and the Placing Underwriter(s)

DEFINITIONS AND GLOSSARY

“Underwriting Agreements”	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
“United States” or “US” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$” or “US dollars”	United States dollars, the lawful currency of the United States
“WHITE Application Form(s)”	the application form(s) for use by the public who require(s) such Public Offer Shares to be issued in the applicant’s/applicants’ own name(s)
“Wing Co., Ltd.”	Wing Co., Ltd., being a member of Customer Group A (as our largest customer during the Track Record Period), details of which are set out in the paragraph headed “Business — Customers — Top customers” in this prospectus
“YELLOW Application Form(s)”	the application form(s) for use by the public who require(s) such Public Offer Shares to be deposited directly into CCASS
“%”	per cent

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our Group's business strategies and plans of operation;
- our Group's capital expenditure plans;
- the amount and nature of, and potential for, future development of our Group's business;
- our Group's operations and business prospects;
- our Group's dividend policy;
- the regulatory environment of our Group's industry in general;
- future development in our Group's industry; and
- factors beyond our control such as catastrophic losses from fires, floods, windstorms, earthquakes, diseases or other adverse weather conditions or natural disasters.

The words "aim", "anticipate", "believe", "could", "expect", "intend", "may", "plan", "seek", "will", "would" and the negative of these words or other similar expressions or statements, as they relate to our Group, are intended to identify a number of these forward-looking statements. These forward-looking statements reflecting our Group's current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus in the section headed "Risk factors". One or more of these risks or uncertainties may materialise, or underlying assumptions may prove incorrect.

Subject to the requirements of the GEM Listing Rules, our Company does not intend to publicly update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way our Company expects, or at all. Accordingly, Shareholders should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

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

RISK FACTORS

An investment in our Shares involves various risks. You should carefully consider the risks described below and all other information contained in this prospectus before making an investment decision. If any of the possible events as described below, or any other risk factors or uncertainties that our Company is unaware of, materialises, our Group's business, financial condition and operating results could be materially and adversely affected and the trading price of our Shares could decline, and you could lose part or all of your investment.

RISKS RELATED TO CUSTOMER GROUP A

We are reliant on sales of ODM toys to our largest customer group and any significant decrease in the business volume from our largest customer group may materially and adversely affect our financial condition and operating results

We are reliant on sales of ODM toys to our largest customer group. Our revenue generated from sales of ODM toys for each of the two years ended 31 March 2017 and the nine months ended 31 December 2017 amounted to approximately HK\$85.5 million, HK\$83.9 million and HK\$61.3 million, respectively, which accounted for approximately 69.5%, 61.3% and 65.2% of our total revenue for these periods, respectively. During each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, the revenue derived from sales of ODM toys to our largest customer, namely Customer Group A, accounted for approximately 63.8%, 60.2% and 65.1% of our total revenue, respectively. We expect revenue from Customer Group A to continue to account for a significant portion of our revenues.

Given that purchase orders from Customer Group A are negotiated on case-by-case basis, we may face pressure from Customer Group A in seeking price reductions, financial incentives or more favourable terms in the purchases. Any of these could also materially and adversely affect our business, financial condition and operating results. In addition, if Customer Group A experiences financial difficulties, and ceases to do business with us or significantly reduces the amount of purchase from us, it could have a material adverse effect on our business, financial condition and operating results.

Sentinel Japan (being a member of our largest customer group, namely Customer Group A) is also one of our largest suppliers group (namely Supplier Group C) during the Track Record Period. If Sentinel Japan terminates its business relationship with us, our Group's business would be materially and adversely affected

For each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, revenue derived from Sentinel Japan (being a member of our largest customer group, namely Customer Group A) accounted for approximately 44.0%, 38.0% and 40.8% of our total revenue, respectively; whereas purchase of imported toys from Sentinel Japan, together with Supplier C2, accounted for approximately 15.6%, 17.4% and 8.8% of our total purchase during these periods, respectively. Please refer to section headed "Business — Customers — Customers who were also our suppliers" in this prospectus for further details.

RISK FACTORS

If Sentinel Japan substantially reduces the volume and/or value of purchase orders it places with our Group, reduce the volume of imported toys supplied to our Group, or terminate its business relationship with our Group entirely, there is no assurance that our Group will be able to replace comparable customer and/or supplier in a timely manner or secure similar commercial terms. Further, any adverse change in the business or financial condition of Sentinel Japan, including any liquidity problem, bankruptcy or liquidation, may also result in higher level of credit risk to us. Occurrence of any above events could have a material adverse effect on our financial condition and operating results.

If Customer Group A fails to renew existing license and/or obtain new license rights for its own licensed toys, the sales of our ODM toys may be adversely affected

During each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, the revenue derived from sales of ODM toys to our largest customer, namely Customer Group A, accounted for approximately 63.8%, 60.2% and 65.1% of our total revenue, respectively. The ODM toys that Customer Group A engaged us to produce were mostly based on ACG characters owned by Japanese licensors. Therefore, the sustainability of demand for our ODM toys is highly dependent on Customer Group A's ability to renew its existing license and/or obtain new license rights for the relevant ACG characters. We cannot guarantee that Customer Group A will be able to successfully renew its existing license rights, and to so on acceptable terms, or that it will be successful in acquiring license rights for new products. If one or more of the Japanese licensors were to terminate or decline the license rights granted to Customer Group A, or impose significantly unfavourable terms on Customer Group A, this would result in loss of the license rights held by Customer Group A for product development, which in turn may adversely affect its demand for our ODM services.

There may be competitions between our Group and Customer Group A if our distributorship agreements are terminated

Currently, pursuant to our distributorship agreements with Sentinel Japan, Sentinel Japan is the exclusive distributor of our own licensed toys in Japan, while our Group has been the exclusive distributor of Sentinel Japan's licensed toys in worldwide except Japan. The terms of the aforesaid distributorship agreements are for an initial period of five years from 19 February 2017. We cannot guarantee that the aforesaid distributorship agreements would be renewed upon their expiry dates, or that there would not be premature termination due to potential breach on either party to the agreements. If the distributorship agreements are terminated or not renewed, Sentinel Japan may sell its licensed toys outside Japan by itself directly or through overseas distributors other than our Group. In such case, the licensed toys of Customer Group A may come into competition with our own licensed products in the worldwide markets. If our own licensed toys fail to compete effectively with Customer Group A's own licensed toys, this may adversely affect our financial performance and operating results.

RISK FACTORS

RISKS RELATED TO OUR BUSINESS

Save for the right of first offer granted by Customer Group A, we do not have long-term purchase commitment from our customers and there is no guarantee that our customers will provide us with new business

Save for the right of first offer granted by Customer Group A, we do not have long-term purchase commitment from our customers. For further details about such right of first offer, please refer to the section headed “Business — Customers” in this prospectus. Since our sales are made by purchase orders on case-by-case basis, the amount of sales to each customer may vary from time to time, and it is difficult to forecast future order quantities. There is no assurance that any of our customers will continue to place purchase orders with us in the future with us at the same volume, or at the same margin, as compared to prior periods, or at all. We may not be able to locate alternative customers to replace purchase orders from our existing customers on similar scale, or at all. As a result, our operating results may vary from period to period and may fluctuate significantly in the future.

Failure to protect the intellectual property rights of our Group and/or our customers may adversely affect our business and results of operations

As at the Latest Practicable Date, we have registered two, six, one and one trademarks in relation to the “SENTINEL/千值練” brand in Hong Kong, the PRC, Taiwan and the US, respectively. Further, we have also registered two, four, one, and one trademarks in relation to the “TOPI” and “FLAME TOYS” brands in Hong Kong, the PRC, Taiwan and Japan, respectively. We have not undertaken intellectual property protection measures in each territory where we distributed our products. Given the large geographic coverage to which we distribute our products, monitoring and preventing unauthorised use of the intellectual property rights could be costly and may not be effective. This may give room for competitors to exploit the intellectual property rights of our products in some of our sales territories. In particular, we may encounter instances of counterfeit products sold in countries or territories where protection of trademarks and other intellectual property rights may not be effective or may be limited.

We cannot assure that the intellectual property rights of our brands or products are or will be adequately protected or that such intellectual property rights will not be challenged by third parties or found to be invalid or unenforceable. There is no guarantee that our customers or licensors would possess and retain the exclusive ownership of all rights, title and interest in intellectual property rights that we may apply them in product design and development free from claims of third parties.

RISK FACTORS

In addition, we may be unaware of intellectual property registrations or applications relating to our brands or design of our products that may give rise to potential infringement claims against us. Any misappropriation of the intellectual properties rights of our brands or products or involvement in legal disputes in this regard could disrupt our business and divert our management's attention from our operations. We may, from time to time, be required to institute litigation, arbitration or other proceedings to enforce our intellectual property rights, which would likely be time-consuming and costly to resolve, and would divert our time and attention regardless of its outcome. Even if we can successfully enforce the rights in our brands or products, any harm done to our brand and the image of products could have a material and adverse impact on our business, financial condition and operating results.

Further, in general, the copyrights, designs, patents, trademarks or other intellectual property rights associated with our ODM toys, moulds and drawings prepared by us upon our customer's request are owned by our customers. We cannot guarantee that our customers' designs and other intellectual property rights would not be misappropriated by third parties. If we cannot adequately safeguard our customers' intellectual property rights, our customers could reduce or discontinue their purchase orders with us, which could have a material adverse effect on our business, results of operations and reputation.

We rely on our suppliers and reduction in amount of supplies or termination of our business relationships by these suppliers may adversely affect our operating results and financial performance

During the Track Record Period, we purchased imported toys mainly from Supplier Group C, another two Japan-based licensees (namely Supplier F and Supplier G) and Customer Group B (which was also our supplier of imported toys during the Track Record Period). Our purchase from these suppliers accounted for approximately 17.5%, 22.1% and 15.4% of our total purchase for each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, respectively. If these suppliers reduce the supplies of imported toys to us or terminate their business relationships with us, we may not be able to identify alternative suppliers for imported toys of the same grading and quality and/or at similar commercial terms, or at all. Thus, our operating results and financial performance may be adversely affected.

We do not have our own production facilities and we outsource all the production of our products to our manufacturing suppliers. Our ability to meet the demands of our customers and ensure our business growth depends on the efficient, proper and uninterrupted operation of our suppliers' production facilities. As a result, any mistakes made or difficulties encountered by our manufacturing suppliers that result in product defects, production delays, cost overruns or the inability to fulfil orders on a timely basis or at all could adversely affect our business, financial condition and results of operations. Power failures or disruptions, the breakdown, failure or sub-standard performance of equipment, labour strikes, the destruction of buildings and other facilities due to fire or natural disasters, among other things, could significantly affect our manufacturing suppliers' ability to operate their facilities and meet the need of our customers. Our failure to meet our customers' demands could also adversely affect our on-going relationship with them and their decision to make purchase from us in the future.

RISK FACTORS

Our business could be adversely affected if our manufacturing suppliers cease their business relationships with us or are unable to meet our demand for whatever reasons, or if we are unable to secure other replacement suppliers on terms acceptable to us or at all in a timely manner. Failure to fulfil orders on a timely basis or at all as a result of lack of the support from our suppliers could adversely affect our business, financial condition and results of operations.

We derive a significant portion of our revenue from sales of imported toys and our own licensed toys to distributors. Termination or discontinuation of business relationship with, significant decrease in purchase from, or developments adverse to, our Group's distributors could have a material and adverse effect on us

We derive a significant portion of our revenue from sales of imported toys and our own licensed toys to distributors, which accounted for approximately 25.9%, 29.2% and 26.2% of our revenue for the two years ended 31 March 2017 and the nine months ended 31 December 2017, respectively.

We cannot give assurance that our distributors will operate their distribution channels and logistic capabilities in a timely and sufficient manner to benefit sales of our products. Further, we do not have any long-term purchase commitment from our distributors. There is no guarantee that we will be able to maintain our existing relationships with distributors or to develop relationships with replacement distributors on acceptable terms. There can also be no assurance that our existing distributors will be able to maintain past levels of sales with us or at all. We cannot guarantee that our distributors would continue to make purchase from us at the current level or at all. Any termination or discontinuation of business relationship with, or significant decrease in purchase from, our distributors could have a material and adverse effect on us.

Furthermore, there is no assurance that we will be successful in managing our distributors and detecting non-compliance with our distribution arrangements by them (if applicable), which may in turn result in harmful effect on our brands and products. Our distributors may also distribute toy products of other brands that compete with our products for consumer spending and we cannot give assurance that our distributors will prioritise their marketing and distribution resources to benefit sales of our products.

We expect that our future performance will continue to depend on the success of our major distributors. In turn, the success of our major distributors depends on several factors, including but not limited to the consumer preference and market acceptance of their toy products, the level of discretionary consumer spending in countries in which our major distributors sell their products, as well as the distribution channels of our distributors. Our major distributors are not the end consumers of our products, and they re-sell our products to their own customers which we do not have any direct contractual relationship. We understand that their corresponding customers may include wholesale, retailers and/or end-consumers. Any development adverse to our major distributors, including but not limited to, reduction in, or termination of, orders from the corresponding customers of our distributors for whatever reason, could materially and adversely affect our business, financial condition and operating results.

RISK FACTORS

Failure to renew existing license rights and/or obtain new license rights for our own licensed toys will have adverse impact on financial performance on our Group

For each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, we derived approximately 12.1%, 18.6% and 17.5%, respectively, of our total revenue from sales of our own licensed toys. Our ability to sustain and grow our revenues depends on our success in renewing existing license rights and/or obtain new license rights for our own licensed toys. We cannot guarantee that we will be able to successfully renew our existing license rights, and do so on terms acceptable to us, or that we will be successful in our strategy to acquire license rights for new products. If one or more of the licensors were to terminate or decline to renew the license rights granted to us, or impose significantly unfavourable terms on us, our business, financial performance and operating results could be adversely affected.

Competition for license rights could increase our cost of licensing fees and limit our ability to renew and/or obtain new license rights, which may adversely affect our financial performance

Available licenses granted by renowned entertainment brands for popular ACG characters are limited in number, and hence competition to secure and retain such license rights is increasingly intense. Increasing competition may require us to pay higher license fees to obtain and/or renew our license rights of popular ACG character. We may in the future be required to pay an increased license fees or minimum guarantee when our existing license rights expire. If we have to commit significant financial resources in order to secure and retain license rights, our business, operating results and financial condition could be adversely affected.

We generated a significant portion of revenue from sales of toys under the “SENTINEL/千值練” brand. Deterioration in the brand value of “SENTINEL/千值練” may adversely affect our operating results

During Track Record Period, we generated a significant portion of revenue from (i) our own licensed toys under the “SENTINEL/千值練” brand, and (ii) imported toys purchased from Sentinel Japan under the “SENTINEL/千值練” brand. Therefore, the “SENTINEL/千值練” brand is critical to our sales performance. The sale of our own licensed toys and imported toys under the “SENTINEL/千值練” brand accounted for approximately 23.8%, 19.4% and 20.7% of our total revenue for each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, respectively. For further details, please refer to the section headed “Business — Description of business operations — III. Sale of own licensed toys — The brands of our own licensed toys” in this prospectus.

RISK FACTORS

Since consumer tastes and preferences for toys featuring ACG characters are constantly changing, and lifecycle of brands vary in length. It is not possible to predict when the popularity of a certain brand will diminish. Further, the sales performance of ACG toys depends heavily on the perceived value of its brand, which is affected by various factors including but not limited to, quality of past products, innovativeness of the product and market reputation of the developers. We are not in the position to assure that the popularity and market acceptance of the “SENTINEL/千值練” brand could be maintained at its prevailing level or at all.

Further, Sentinel Japan had also applied the “SENTINEL/千值練” brand in developing its licensed toys and related products. As such, the perceived brand value of “SENTINEL/千值練” brand may be affected by the licensed toys and activities of Sentinel Japan. If any acts or licensed toys of Sentinel Japan cause negative impact on the “SENTINEL/千值練” brand, the consumer perception of our own licensed toys which are developed under the “SENTINEL/千值練” brand, would in turn be adversely affected.

Accordingly, we cannot give assurance that going forward the amount of revenue generated from sales of toys under the “SENTINEL/千值練” brand can be sustained. If the “SENTINEL/千值練” brand erodes or fails to maintain its current appeal to consumers, there is no guarantee that we could develop or identify comparable brands as replacement, or that sales of toys under such new brands will be sufficient to make up the reduction in sales of toys under the “SENTINEL/千值練” brand. Any reduction in the sales of toys under the “SENTINEL/千值練” brand could therefore adversely affect our revenues and operating results.

Our distributors may accumulate excess or obsolete inventory and any excessive build-up of inventory could affect the volume of future orders from our distributors and thus have a material adverse impact on our business

We sell a significant portion of imported toys and our own licensed toys to our distributors. Our distributors may be unable to sell an adequate amount of their inventories of our toys in a given period, which may result in a build-up of inventory at our distributors. In such event, these distributors would likely reduce future orders until their inventory levels realign with demand. As such, any excessive build-up of inventory by our distributors could reduce the volume of future orders that we receive from our distributors and thus may have a material impact on our sales and, accordingly, our financial condition and operating results.

RISK FACTORS

We may fail to anticipate or respond to changes in consumer tastes and market trends in a timely manner

We operate in an industry that is subject to rapid and unpredictable changes. Our business success depends on ability to identify and respond to changes in consumer tastes and market trends in a timely manner by sourcing or developing new toys and related products.

Our direct and indirect competitors are constantly introducing new products based on various ACG characters that compete with our products for consumer spending. The large number of new products constantly being introduced which compete with our products for consumer spending means that we have to satisfy constantly increasing consumer expectations for product appeal, quality, functionality and value.

We cannot give assurance that: (i) we will be able, on an ongoing basis, to accurately identify and appropriately respond to changes in consumer preferences, tastes and market trends in ACG toys and competing consumer products, (ii) any of our current products or brands will continue to be popular for any significant period of time, or (iii) we can source or develop new products in ways that appeal to consumers. Failure to anticipate or respond to changes in consumer tastes and market trends in a timely manner may result in significant drop in our sales and adversely affect our business, operating results and financial performance.

Failure to comply with terms of license agreements held by our Group may result in premature termination or infringement action by the licensors, which would materially and adversely affect our ability to develop and distribute licensed products in certain territories or at all

If we fail to comply with terms of the licensee agreements for whatever reasons beyond our control, it may result in premature termination or infringement action by the licensors. This would materially and adversely affect our ability to develop and distribute licensed products in certain territories or at all, which could in turn result in damage to our reputation and adverse impact on our business and financial conditions.

RISK FACTORS

We may be subject to product liability claims, product recalls or complaints against our products, which may adversely affect business, reputation and financial condition

We implemented a series of quality control measures in relation to our products, details of which are set out the section headed “Business — Quality control” in this prospectus. However, we are exposed to risks associated with product liability, product recalls and complaints for defective products. If any of the products sold to our customers are alleged or proven to be harmful or of unsatisfactory quality, the sales to the relevant customers would subsequently decrease significantly. In addition, we would be required to accept the return of such products and suspend the sales altogether. Any such claims, recalls, suspensions or cessations could materially and adversely affect our business, reputation, financial condition and results of operations, regardless of whether such claims have merits. If we are required to defend any litigation related to product liability claims or product recalls, it may require significant financial resources and the time and attention of our management. Although our suppliers may contractually be responsible the cost of replacement or repair if there are disputes over the quality of products supplied by them, such contractual obligation may not fully cover the damages we suffer in the event of product liability claims, product recalls or complaints.

We cannot guarantee that raw materials used by our suppliers are of the same specifications and standards required by us, which may expose us to risk of product recall

We impose a series of quality control measures that our suppliers are required to follow strictly, including but not limited to specification for raw materials. Please refer to the section headed “Business — Quality Control” in this prospectus for details. Nevertheless, we have no ultimate control over whether our suppliers, to whom outsource the production of our products, strictly follow our specifications and instructions as to raw materials to be used in the production of our products. We may therefore be exposed to the risk that our products are not manufactured with raw materials which comply with the safety and quality standards specified by us, including the risk that such raw materials may contain harmful ingredients. If our products are found to contain such ingredients, we may be required to recall shipments of our products, and our operations and financial results may hence be adversely affected.

RISK FACTORS

Ineffective quality control over the suppliers and products may result in negative impact on the business and operation of our Group

Our Group outsources the production of our products to our suppliers, with our Group exercising quality control throughout the production process. Our Group implemented a quality control system in relation to raw materials, production process and finished products, and require our suppliers responsible for manufacturing process to satisfy our selection criteria. Please refer to the sections headed “Business — Suppliers” and “Business — Quality control” in this prospectus for further details. Nevertheless, our Group cannot assure that the quality control measures could avoid all quality issues of its products, which may affect our corporate image and reputation. If we are unable to prevent or effectively manage the risks relating to our product quality, we may be exposed to product liabilities claims and its business, financial condition and operating results may be adversely affected.

We may be exposed to delays and/or defaults of payments by our customers which would adversely affect our cash flows or financial results

As at 31 March 2016, 31 March 2017 and 31 December 2017, our trade receivables amounted to approximately HK\$10.8 million, HK\$13.4 million and HK\$15.0 million, and our debtors’ turnover days were approximately 21.7 days, 32.2 days and 41.4 days for each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, respectively. For details of the fluctuations in our trade receivables from our customers and the debtors’ turnover days, please refer to the paragraph headed “Financial information — Analysis of various items from the consolidated statements of financial position — Trade and other receivables” in this prospectus. We cannot assure you that we will be able to recover all or any part of the amounts due from our customers or we will be able to collect all or any part of trade receivables from our customers within the agreed credit terms at all. There is also a possibility that it may take longer than the debtors’ turnover days for us to collect payments. This will negatively affect our cash flows and financial performance.

RISK FACTORS

Our cash flows may deteriorate due to potential mismatch in time between receipt of payments from our customers and payments to our suppliers, which could adversely affect our business, operating results and financial condition

In the procurement and sales of toys and related products, there are often time lags between making payments to our suppliers and receiving payments from our customers, resulting in potential cash flows mismatch. If we choose to pay our suppliers only after receiving payments from our customers, we will risk our reputation in being able to make payments on a timely manner, which could harm our ability to engage capable and quality suppliers for our business in the future.

For each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, our creditors' turnover days were approximately 54.3 days, 53.0 days and 21.2 days respectively and our debtors' turnover days were approximately 21.7 days, 32.2 days and 41.4 days respectively.

We principally rely on cash inflow from our customers to meet our payment obligations to our suppliers. Nevertheless, even if our customers settle such payments on time and in full, there can be no assurance that we would not experience any significant cash flow mismatch. Further, there can be no assurance that our cash flow management measures could function properly or at all. If there were any significant and substantial cash flow mismatch, we might have to raise funds by resorting to internal resources and/or banking facilities in order to meet our payment obligations in full and on time. Any of these could adversely affect our business, operating results and financial condition.

We had negative operating cash flow for the nine months ended 31 December 2016 and for the year ended 31 March 2017. There can be no assurance that we will not have negative operating cash flow in the future

We have funded our operations and capital requirements from cash generated from our operations and bank borrowings. After the Share Offer, we expect to continue to derive our funding from cash generated from our operations and bank borrowings in addition to net proceeds from the Share Offer. For the year ended 31 March 2016 and the nine months ended 31 December 2017, we recorded net cash inflows from operating activities of approximately HK\$29.4 million and HK\$1.9 million, respectively. We recorded a net cash outflow from operating activities of approximately HK\$6.6 million and HK\$5.4 million respectively for the year ended 31 March 2017 and the nine months 31 December 2016 respectively. For details, please refer to "Financial information — Liquidity and capital resources — Cash flows".

Our ability to generate sufficient cash from our operating activities to finance our operations and expansion plans depends on a number of factors, including but not limited to the performance of our operations and the ability of our customers to settle their payments. If we have a negative operating cash flow in the future, we may not be able to generate sufficient funding to finance our working capital and capital expenditure requirements, and our business, results of operations and financial position may be materially and adversely affected.

RISK FACTORS

Changes in fair value of investment property

Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the consolidated statement of profit or loss. Our investment property may incur negative fair value change in the future, which may adversely affect our profitability. Our results may fluctuate due to increases or decreases in the appraised fair value of our investment property. However, fair value gains do not change our overall cash position or our liquidity as long as we continue to hold such investment property.

The amount of revaluation adjustments has been, and will continue to be, subject to market fluctuations. We cannot assure the changes in market conditions (if any) will continue to create fair value gains on our investment property at previous levels or at any level at all, or that the fair value of our investment property will not decrease in the future or that our investment property will increase substantially or at all. There is no assurance that the fair value gains (if any) on our investment property will increase due to any increase in our portfolio of investment property and/or increase overall value appreciation of property. In addition, fair value gains of our investment property are based on valuations performed by our property valuer and are calculated based on assumptions adopted by them. We cannot assure that the assumptions used by our property valuer will be realised.

We may be subject to uninsured risks from our business operations

We have maintained certain insurance coverage through external insurers during the Track Record Period. For details of our insurance coverage, please refer to the section headed “Business — Insurance” in this prospectus. Although we have maintained insurance coverage for product liability claims, there can be no assurance that such coverage will be sufficient or that the insurers will reimburse us for losses and expenses related to product liability claims in a timely manner or at all. Any events for which we do not maintain insurance or for which our insurance cover is inadequate, or for which insurers do not reimburse us in a timely manner, may materially and adversely affect our business operations, financial conditions and operating results.

We depend on our senior management team, and our business and growth may be severely disrupted if we lose their services

We rely on the expertise and experience of all of our Directors and members of senior management to develop business strategies and customer relationships. In particular, our founder, Mr. Li, the expertise and experience of whom are set out in the section of “Directors and Senior Management” in this prospectus, is a key contributor to the growth and development of our Group. If we lose any member of our senior management team, we may not be able to replace him or her adequately and timely, and our business may be severely disrupted and our financial condition and results of operations may be materially and adversely affected.

RISK FACTORS

Furthermore, as we expect to continue expanding our operations and product portfolio, we will need to continue attracting and retaining experienced management personnel. We believe that competition for experienced personnel in the ACG figure toy industry is intense. Competition for these individuals could cause us to offer higher compensation and other benefits in order to attract and retain them, which would increase our operating costs.

Our historical financial information may not reflect its performance in the future

For each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, our total revenue amounted to approximately HK\$123.2 million, HK\$136.9 million and HK\$94.0 million, respectively, with gross profit amounted to approximately HK\$32.2 million, HK\$40.1 million and HK\$27.0 million, respectively. However, such financial information is merely an analysis of our past performance, it does not reflect the performance of our business in the future, nor does it have any position implication. Instead of our historical financial information, the future performance of our business depends on our Group's capabilities to secure new business opportunities and keeping its costs at a minimum, and other factors which may be beyond the control of our Group.

RISKS RELATED TO THE INDUSTRY WE OPERATE IN

The ACG toy industry is competitive and our inability to compete effectively may materially and adversely impact our business, financial condition and results of operations

The ACG toys industry is competitive. In the PRC and other Asian countries, there are many businesses which have financial and strategic advantages over us, including, among other things, greater financial resources, larger scale of operation and marketing and product development capability, stronger name recognition, longer operating histories, better cost structure and greater economies of scale. As a result of this competitive pressure, we cannot assure you that we will continue to compete effectively, which could result in our loss of one or more of our current customers and limit our ability to compete for such customers in the future.

In addition, the ACG toys industry has no significant barriers to entry. We compete primarily on the basis of quality and services, our ability to meet customers' specific product requirements, timeliness of delivery and price. Many of our competitors offer similar products or services and there are new competitors joining the industry. We cannot assure you that we will be able to maintain or expand our sales of toy products or that we will be able to continue to compete effectively against current and future competitors.

RISK FACTORS

ACG toys are not necessities and demand for them can be volatile

ACG toys are not necessities, demand for them depends to a significant extent on a number of factors relating to discretionary consumer spending. These factors include, among other things, general economic conditions and perceptions of such conditions by consumers, employment rates, the level of consumers' disposable income, business conditions and interest rates. An economic downturn in the markets in which our products are sold could significantly decrease demand for those products, reducing the number of purchase orders we receive from our customers and distributors, which could have a material adverse effect on our business, financial condition and results of operations.

RISK RELATING TO THE SHARE OFFER

There has been no prior public market for the Shares and the liquidity, market price and trading volume of the Shares may be volatile

Prior to the Listing, there is no public market for the Shares. The listing of, and the permission to deal in, the Shares on the Stock Exchange do not guarantee the development of an active public market or the sustainability thereof following completion of the Share Offer. Factors such as variations in our Group's revenues, earnings and cash flows, acquisitions made by our Group or its competitors, industrial or environmental accidents suffered by our Group, loss of key personnel, litigation, fluctuations in the market prices for our services, materials or labours, the liquidity of the market for the Shares, or the general market sentiment regarding the industry in which we operate could cause the market price and trading volume of the Shares to change substantially. In addition, both the market price and liquidity of the Shares could be adversely affected by factors beyond our Group's control and unrelated to the performance of our Group's business, especially if the financial market in Hong Kong experiences a significant price and volume fluctuation. In such cases, investors may not be able to sell their Shares at or above the Offer Price.

Investor may experience dilution if we issue additional Shares in the future

Our Company may issue additional Shares upon exercise of options to be granted under the Share Option Scheme in the future. The increase in the number of Shares outstanding after the issue would result in the reduction in the percentage ownership of the Shareholders and may result in a dilution in the earnings per Share and net asset value per Share.

In addition, we may need to raise additional funds in the future to finance business expansion or new development and acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro-rata basis to the existing Shareholders, the shareholding of such Shareholders in our Company may be reduced or such new securities may confer rights and privileges that take priority over those conferred by the Offer Shares.

RISK FACTORS

Any disposal by our Controlling Shareholders of a substantial number of Shares in the public market could materially and adversely affect the market price of the Shares

There is no guarantee that our Controlling Shareholders will not dispose of their Shares following the expiration of their respective lock-up periods after the Listing. Our Group cannot predict the effect, if any, of any future sales of the Shares by any of our Controlling Shareholders, or that the availability of the Shares for sale by any of our Controlling Shareholders may have on the market price of the Shares. Sales of a substantial number of Shares by any of our Controlling Shareholders or the market perception that such sales may occur could materially and adversely affect the prevailing market price of the Shares.

Investors may experience difficulties in enforcing their shareholders' rights because our Company is incorporated in the Cayman Islands, and the protection to minority shareholders under the Cayman Islands law may be different from that under the laws of Hong Kong or other jurisdictions

Our Company is incorporated in the Cayman Islands and its affairs are governed by the Articles, the Companies Law and common law applicable in the Cayman Islands. The laws of the Cayman Islands may differ from those of Hong Kong or other jurisdictions where investors may be located. As a result, minority Shareholders may not enjoy the same rights as pursuant to the laws of Hong Kong or such other jurisdictions. A summary of the Cayman Islands company law on protection of minorities is set out in Appendix V to this prospectus.

Future issues, offers or sale of Shares may adversely affect the prevailing market price of the Shares

Future issue of Shares by our Company or the disposal of Shares by any of the Shareholders or the perception that such issues or sale may occur, may negatively impact the prevailing market price of the Shares. We cannot give any assurance that such event will not occur in the future.

RISKS RELATING TO THE PROSPECTUS

Statistics and industry information contained in this prospectus may not be accurate and should not be unduly relied upon

Certain facts, statistics, and data presented in the section "Industry overview" and elsewhere in this prospectus relating to the industry in which we operate have been derived, in part, from various publications and industry-related sources prepared by government officials or independent third parties. In addition, certain information and statistics set forth in this prospectus have been extracted from a market research report commissioned by us and prepared by Frost & Sullivan, an independent market research agency. Our Company believes that the sources of the information are appropriate sources for such information, and the Sponsor and our Directors have taken reasonable care to extract and reproduce the publications and industry-related sources in this prospectus. In addition, our Company has no reason to believe that such information is false or

RISK FACTORS

misleading or that any fact that would render such information false or misleading has been omitted. However, neither our Group, our Directors, the Sponsor, nor any parties involved in the Share Offer have independently verified, or make any representation as to, the accuracy of such information and statistics. It cannot be assured that statistics derived from such sources will be prepared on a comparable basis or that such information and statistics will be stated or prepared at the same standard or level of accuracy as, or consistent with, those in other publications within or outside Hong Kong. Accordingly, such information and statistics may not be accurate and should not be unduly relied upon.

Our Group's future results could differ materially from those expressed or implied by the forward-looking statements

Included in this prospectus are various forward-looking statements that are based on various assumptions. Our Group's future results could differ materially from those expressed or implied by such forward-looking statements. For details of these statements and the associated risks, please refer to the section headed "Forward-looking Statements" in this prospectus.

Investors should read this entire prospectus carefully and we strongly caution you not to place any reliance on any information (if any) contained in press articles or other media regarding us and the Share Offer including, in particular, any financial projections, valuations or other forward looking statement

Prior to the publication of this prospectus, there may be press or other media, which contains certain information referring to us and the Share Offer that is not set out in this prospectus. We wish to emphasise to potential investors that neither we nor any of the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers and the Underwriters, the directors, officers, employees, advisers, agents or representatives of any of them, or any other parties (collectively, the "Professional Parties") involved in the Share Offer has authorised the disclosure of such information in any press or media, and neither the press reports, any future press reports nor any repetition, elaboration or derivative work were prepared by, sourced from, or authorised by us or any of the Professional Parties. Neither we nor any Professional Parties accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is not contained in this prospectus or is inconsistent or conflicts with the information contained in this prospectus, we disclaim any responsibility, liability whatsoever in connection therewith or resulting therefrom. Accordingly, prospective investors should not rely on any such information in making your decision as to whether to invest in the Offer Shares. You should rely only on the information contained in this prospectus.

**WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES AND
EXEMPTION FROM STRICT COMPLIANCE WITH THE COMPANIES
(WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

In preparation for the Listing, we have sought the following waiver from strict compliance with the relevant provisions of the GEM Listing Rules and exemption from strict compliance with relevant requirements of the Companies (Winding Up and Miscellaneous Provisions) Ordinance:

ACCOUNTS IN THIS PROSPECTUS

It is stated in Rule 7.03(1) of the GEM Listing Rules that in the case of a new applicant, the accountants' report must include the results of the issuer or, if the issuer is a holding company, the consolidated results of the issuer and its subsidiaries covering at least the two financial years immediately preceding the issue of the listing document or such shorter period as may be acceptable to the Stock Exchange.

It is stated in Rule 11.10 of the GEM Listing Rules that a new applicant and, if required pursuant to Rule 7.01 of the GEM Listing Rules, a listed issuer must have an accountants' report prepared in accordance with Chapter 7 of the GEM Listing Rules, covering (subject to Rule 11.14 of the GEM Listing Rules) in the case of a new applicant, at least the two financial years immediately preceding the issue of the listing document.

Section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance requires all prospectuses to include the matters specified in Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance and sets out the reports specified in Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

According to paragraph 27 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, our Company is required to include in this prospectus a statement as to its gross trading income or its sales turnover (as may be appropriate) during each of the three financial years immediately preceding the issue of this prospectus including an explanation of the method used for the computation of such income or turnover and a reasonable breakdown between the more important trading activities.

According to paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, our Company is required to include in this prospectus a report by the auditors of our Company with respect to (a) profits and losses of our Company; and (b) assets and liabilities of our Company for each of the three financial years immediately preceding the issue of this prospectus.

According to section 5(3) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), all references to "3 preceding years", "3 financial years" and "3 years" in paragraphs 27 and 31 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance are substituted by references to "2 preceding years", "2 financial years" and "2 years", respectively, for a prospectus issued in relation to an application for the listing of securities on GEM.

**WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES AND
EXEMPTION FROM STRICT COMPLIANCE WITH THE COMPANIES
(WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

Our Company's financial year end date is on 31 March. The accountants' report of our Company set out in Appendix I to this prospectus is currently prepared to cover the two full financial years ended 31 March 2017 and the nine months ended 31 December 2017.

As such, the Sponsor has applied on behalf of our Company to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with Rules 7.03(1) and 11.10 of the GEM Listing Rules on the following conditions:

1. this prospectus will be issued on or before 18 May 2018;
2. the Shares will be listed on GEM on or before 31 May 2018 (i.e. two months after the latest financial year end);
3. our Company shall obtain a certificate of exemption from the SFC on strict compliance with the requirements of section 342(1) in relation to paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to, the Companies (Winding Up and Miscellaneous Provisions) Ordinance;
4. a profit estimate for the year ended 31 March 2018 (which complies with Rules 14.29 to 14.31 of the GEM Listing Rules) shall be included in this prospectus; and
5. there shall be a Directors' statement in this prospectus that save as to the listing expenses there is no material adverse change to our financial and trading positions or prospect with specific reference to the trading results from 1 January 2018 to 31 March 2018.

Further, an application has been made to the SFC for a certificate of exemption from strict compliance with section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to the requirements of paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance regarding the inclusion of the accountants' report covering the full financial year ended 31 March 2018 in this prospectus on the ground that strict compliance with the requirements of section 342(1)(b) in relation to paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to, the Companies (Winding Up and Miscellaneous Provisions) Ordinance would be unduly burdensome as there would not be sufficient time for us and the reporting accountants to complete the audit work on the financial information for the full financial year ended 31 March 2018.

The SFC has granted a certificate of exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance exempting us from strict compliance with section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to the requirements of paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance on the conditions that (a) particulars of the exemption are set out in this prospectus; and (b) this prospectus will be issued on or before 18 May 2018 and the Shares will be listed on GEM on or before 31 May 2018 (i.e. two months after the latest financial year end).

**WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES AND
EXEMPTION FROM STRICT COMPLIANCE WITH THE COMPANIES
(WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

Our Directors consider that the waiver and the exemption as mentioned above would not prejudice the interests of the investing public on the following grounds:

1. after performing sufficient due diligence on our Group and after conducting all due enquiries, they are not aware of any event since 1 January 2018 which would adversely and materially affect the information shown in the accountants' report set out in Appendix I to this prospectus and other financial information set out in this prospectus;
2. save as to the listing expenses, there has been no material adverse change in our financial and trading positions or prospects from 1 January 2018 to the Latest Practicable Date; and
3. the financials for the two financial years ended 31 March 2017 and the nine months ended 31 December 2017 in this prospectus include all information as may be reasonably necessary to enable the investors to make an informed assessment of the activities, assets and liabilities, financial position, management and prospects of our Group.

Our Directors confirmed that all information necessary for the public to make an informed assessment of the activities, assets and liabilities, financial position, management and prospects of our Group has been included in this prospectus and as such, the waiver granted by the Stock Exchange from strict compliance with Rules 7.03(1) and 11.10 of the GEM Listing Rules and the exemption granted by the SFC from strict compliance with section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance will not prejudice the interests of the investing public. The Directors and the Sponsor confirmed that after having performed sufficient due diligence, other than the listing expenses incurred or to be incurred after 31 December 2017, there is no material adverse change in the financial and trading positions or prospects of our Group from 1 January 2018 to the Latest Practicable Date. The Sponsor concurs that the exemption under the waiver application would not prejudice the interests of the investing public. Our Group will comply with Rules 18.03 and 18.49 of the GEM Listing Rules in respect of the requirements for publication of the annual results and annual report for the year ended 31 March 2018.

A profit estimate for the year ended 31 March 2018 (which complies with Rules 14.29 to 14.31 of the GEM Listing Rules) is included in Appendix III to this prospectus. The estimated consolidated profit attributable to the equity shareholders of our Company for the year ended 31 March 2018 is not less than HK\$15.0 million.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, contains particulars given in compliance with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the GEM Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

1. the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive;
2. there are no other matters the omission of which would make any statement herein or in this prospectus misleading; and
3. all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

INFORMATION ON THE SHARE OFFER

The Offer Shares are offered for subscription solely on the basis of the information contained and the representations made in this prospectus. No person is authorised in connection with the Share Offer to give any information, or to make any representation, not contained in this prospectus. Any information or representation not contained herein shall not be relied upon as having been authorised by our Company, the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters, any of their respective directors, officers, agents, employees, affiliates and/or representatives or any other person or parties involved in the Share Offer.

Details of the structure of the Share Offer, including its conditions, are set out in the section headed "Structure and conditions of the Share Offer" of this prospectus, and the procedures for applying for the Public Offer Shares are set out in the section headed "How to apply for Public Offer Shares" of this prospectus and in the relevant Application Forms.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

UNDERWRITING

This prospectus is published solely in connection with the Share Offer which is sponsored by the Sponsor and managed by the Joint Global Coordinators (for themselves and on behalf of the Underwriters). The Public Offer is fully underwritten by the Public Offer Underwriters under the terms and conditions of the Public Offer Underwriting Agreement. The Placing Underwriting Agreement relating to the Placing is expected to be entered on or around the Price Determination Date, subject to agreement on pricing of the Offer Shares between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters). The Share Offer is managed by the Joint Global Coordinators. Further information relating to the Public Offer Underwriters and the Share Offer and the underwriting arrangements is set out in the section headed “Underwriting” of this prospectus. If, for any reason, the Offer Price is not agreed, the Share Offer will not proceed and will lapse.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which will be determined in Hong Kong dollars by our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the Price Determination Date. For full information relating to the determination of the Offer Price, please refer to the section headed “Structure and conditions of the Share Offer” in this prospectus.

SELLING RESTRICTIONS

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

As at the Latest Practicable Date, no action has been taken in any jurisdiction other than Hong Kong to permit the offering of the Offer Shares or the distribution of this prospectus. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable laws or any applicable rules and regulations of such institutions pursuant to registration with or authorisation by relevant regulatory authorities as an exemption therefrom.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

The Offer Shares are offered for subscription solely on the basis of the information contained and representations made in this prospectus. No person is authorised in connection with the Share Offer to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorised by our Company, the Sponsor, the Joint Global Coordinators, the Joint Lead Managers, the Joint Bookrunners, the Co-Lead Managers, the Underwriters, any of their respective directors, officers, employees, agents, affiliates or representatives of any of them or any other persons or parties involved in the Share Offer.

APPLICATION FOR LISTING ON GEM

Application has been made to the Listing Department for the listing of, and permission to deal in, on GEM, our Shares in issue and to be issued pursuant to the Share Offer and the Capitalisation Issue and upon the exercise of any options which may be granted under the Share Option Scheme.

No part of the share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or, is proposed to being sought in the near future.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, if permission for our Shares offered under this prospectus to be listed on GEM has been refused before the expiration of three weeks from the date of the closing of the application lists or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company for permission by or on behalf of the Listing Department, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of Listing and at all times thereafter, our Company must maintain the “minimum prescribed percentage” of 25% of the issued share capital of our Company in the hands of the public. Not less than 25% of our Company’s enlarged issued share capital will be in the hands of the public immediately following the completion of the Capitalisation Issue and the Share Offer and upon Listing assuming any options that may be granted under the Share Option Scheme are not exercised.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors for the Offer Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, holding of, purchasing of, disposal of or dealing in, our Shares or the exercising their rights thereunder. It is emphasised that none of our Company, our Directors, the Sponsor, the Joint Global Coordinators, the Joint Lead Managers, the Joint Bookrunners, the Co-Lead Managers and the Underwriters, their respective directors, officers, employees, agents, affiliates or representatives of any of them or any other persons or parties involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, holding of, purchasing of, disposal of or dealing in, our Shares or the exercising their rights thereunder.

REGISTER OF MEMBERS AND STAMP DUTY

All our Shares will be registered on the Hong Kong branch register of members of our Company in Hong Kong in order to enable them to be traded on GEM. Only our Shares registered on the branch register of members maintained in Hong Kong may be traded on GEM, unless the Stock Exchange otherwise agrees. Dealings in our Shares registered on the branch register of members maintained in Hong Kong will be subject to Hong Kong stamp duty. Unless determined otherwise by the Company, dividends payable in HK Dollars in respect of the Shares will be paid by cheque sent at the Shareholder's risk to the registered address of each Shareholder or in the case of joint holders, the first named Shareholder.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval of the listing of, and permission to deal in, our Shares in issue and to be issued on GEM and the compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or, under contingent situation, any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for our Shares to be admitted into CCASS. If investors are unsure about the details of CCASS settlement arrangement and how such arrangements will affect their rights and interests, they should seek the advice of their stockbroker or other professional adviser.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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

COMMENCEMENT OF DEALINGS IN OUR SHARES

Dealings in our Shares on GEM are expected to commence at 9:00 a.m. on Thursday, 31 May 2018. Shares will be traded in board lots of 8,000 Shares each.

Our Company will not issue any temporary document of title.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. As a result, any discrepancies in any table or chart set out in this prospectus between totals and sums of individual amounts listed therein are due to rounding. Where information is presented in thousands or millions of units, amounts may have been rounded up or down.

CURRENCY TRANSLATIONS

Unless otherwise specified, translations of RMB into HK\$, JPY into HK\$ and US\$ into HK\$ in this prospectus are based on the exchange rates set out below (for the purpose of illustration only):

RMB0.807	:	HK\$1.00
JPY13.92	:	HK\$1.00
US\$0.127	:	HK\$1.00

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER
--

DIRECTORS

Name	Residential Address	Nationality
<i>Executive Directors</i>		
Mr. LI Wai Keung (李偉強先生)	Flat C, 59/F, Tower 2 The Dynasty 18 Yeung Uk Road Tsuen Wan, New Territories Hong Kong	British National (Overseas)
Mr. TO Hoi Pan (杜海斌先生)	Flat G, 7/F, Block 33 Laguna City 2 South Laguna Street Kowloon Hong Kong	Chinese
Ms. LEE Kwai Fong (李桂芳女士)	Flat 406, 4/F Wai Tung House Tung Tau Estate Wong Tai Sin Kowloon, Hong Kong	Chinese
<i>Independent non-executive Directors</i>		
Mr. YU Pui Hang (余沛恒先生)	Room B, 15/F, Skyview Cliff 49 Conduit Mid-Levels Hong Kong	Chinese
Mr. TUNG Man (董文先生)	Flat 03, 39/F, Kam Shing House Kam Tai Court Ma On Shan, New Territories Hong Kong	Chinese
Ms. CHOW Chi Ling Janice (周緻玲女士)	Flat B, 16/F, Tower 2, Lions Rise 8 Muk Lun Street Wong Tai Sin, Kowloon Hong Kong	Chinese

Please refer to the section headed "Directors and senior management" in this prospectus for further information.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

PARTIES INVOLVED

Sponsor

Ample Capital Limited

Unit A, 14/F

Two Chinachem Plaza

135 Des Voeux Road Central

Central, Hong Kong

(A licensed corporation carrying on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO)

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Alpha Financial Group Limited

Room A, 17/F

Fortune House

61 Connaught Road Central

Central, Hong Kong

(A licensed corporation carrying on type 1 (dealing in securities) regulated activities as defined under the SFO)

Quasar Securities Co., Limited

Unit A, 12/F

Harbour Commercial Building

122-124 Connaught Road Central

Central, Hong Kong

(A licensed corporation carrying on type 1 (dealing in securities) regulated activities as defined under the SFO)

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Co-Lead Managers

AFG Securities Limited

Room B, 17/F
Fortune House
61 Connaught Road Central
Central, Hong Kong
*(A licensed corporation carrying on
type 1 (dealing in securities) regulated
activities as defined under the SFO)*

Astrum Capital Management Limited

Room 2704, Tower 1
Admiralty Centre
18 Harcourt Road
Admiralty, Hong Kong
*(A licensed corporation carrying on
type 1 (dealing in securities),
type 2 (dealing in futures contracts),
type 6 (advising on corporate finance) and
type 9 (asset management) regulated
activities as defined under the SFO)*

Taijin Securities and Futures Limited

Unit 1001-1002, 10/F
Wayson Commercial Building
28 Connaught Road West
Sheung Wan, Hong Kong
*(A licensed corporation carrying on
type 1 (dealing in securities) and
type 2 (dealing in futures contracts) regulated
activities as defined under the SFO)*

Wellington Financial Limited

Unit B, 10/F
128 Wellington Street
Central, Hong Kong
*(A licensed corporation carrying on
type 1 (dealing in securities) and
type 9 (asset management) regulated
activities as defined under the SFO)*

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Legal advisers to our Company	<p><i>As to Hong Kong law:</i> Stevenson, Wong & Co. 39/F, Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong</p> <p><i>As to Cayman Islands law:</i> Appleby 2206-19 Jardine House 1 Connaught Place Central, Hong Kong</p> <p><i>As to certain compliance matters under Hong Kong law:</i> Ms. Queenie W.S. Ng Rooms 2203A & B Fairmont House 8 Cotton Tree Drive Central, Hong Kong</p>
Legal advisers to the Sponsor	<p><i>As to Hong Kong law:</i> David Fong & Co. Unit A, 12th Floor, China Overseas Building 139 Hennessy Road Wanchai, Hong Kong</p>
Legal advisers to the Underwriters	<p><i>As to Hong Kong law:</i> David Fong & Co. Unit A, 12th Floor, China Overseas Building 139 Hennessy Road Wanchai, Hong Kong</p>
Auditor and reporting accountants	<p>KPMG <i>Certified Public Accountants</i> 8th Floor, Prince's Building 10 Chater Road Central, Hong Kong</p>

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER
--

Compliance adviser	Ample Capital Limited Unit A, 14/F. Two Chinachem Plaza 135 Des Voeux Road Central Central, Hong Kong <i>(A licensed corporation carrying on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO)</i>
Industry consultant	Frost & Sullivan International Limited Unit 08, 26/F No.9 Queen's Road Central Central, Hong Kong
Property Valuer	BMI Appraisals Limited 33rd Floor, Shui On Centre 6-8 Harbour Road Wanchai, Hong Kong
Internal control consultant	ZHONGHUI ANDA Risk Services Limited Unit 701, 7/F., Citicorp Centre 18 Whitfield Road Causeway Bay, Hong Kong
Receiving bank	DBS Bank (Hong Kong) Limited 16/F, The Center 99 Queen's Road Central Hong Kong

CORPORATE INFORMATION

Registered office	PO Box 1350, Clifton House 75 Fort Street, Grand Cayman KY1-1108 Cayman Islands
Headquarters and principal place of business in Hong Kong	Flat A-C, 3A/F, Metex House 24-32 Fui Yiu Kok Road Tsuen Wan Hong Kong
Website of the Company	amusegroupholding.com <i>(information on this website does not form part of this prospectus)</i>
Company secretary	Mr. TO Hoi Pan (杜海斌先生) <i>Certified Public Accountant</i> Flat G, 7/F, Block 33 Laguna City 2 South Laguna Street Kowloon Hong Kong
Authorised representatives	Mr. LI Wai Keung (李偉強先生) Flat C, 59/F, Tower 2 The Dynasty 18 Yeung Uk Road Tsuen Wan, New Territories Hong Kong Mr. TO Hoi Pan (杜海斌先生) Flat G, 7/F, Block 33 Laguna City 2 South Laguna Street Kowloon Hong Kong
Compliance officer	Mr. TO Hoi Pan (杜海斌先生) Flat G, 7/F, Block 33 Laguna City 2 South Laguna Street Kowloon Hong Kong
Audit committee	Ms. CHOW Chi Ling Janice (周繼玲女士) (<i>Chairman</i>) Mr. YU Pui Hang (余沛恒先生) Mr. TUNG Man (董文先生)

CORPORATE INFORMATION

Remuneration committee	Mr. YU Pui Hang (余沛恒先生) (<i>Chairman</i>) Ms. CHOW Chi Ling Janice (周緻玲女士) Mr. TUNG Man (董文先生)
Nomination committee	Mr. TUNG Man (董文先生) (<i>Chairman</i>) Mr. YU Pui Hang (余沛恒先生) Ms. CHOW Chi Ling Janice (周緻玲女士)
Principal bank	Standard Chartered Bank (Hong Kong) Limited Standard Chartered Bank Building 4-4A Des Voeux Road Central Hong Kong
Cayman principal share registrar and transfer office	Estera Trust (Cayman) Limited PO Box 1350, Clifton House 75 Fort Street, Grand Cayman KY1-1108 Cayman Islands
Hong Kong Branch Share Registrar and transfer office	Tricor Investor Services Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong

INDUSTRY OVERVIEW

The information that appears in this section has been prepared by Frost & Sullivan and reflects estimates of market conditions based on publicly available sources and is prepared primarily as a market research tool. References to Frost & Sullivan should not be considered as the opinion of Frost & Sullivan as to the value of any security or the advisability of investing in us. Our Directors believe that the sources of information contained in this section are appropriate sources for such information and have taken reasonable care in reproducing such information. Our Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information prepared by Frost & Sullivan and set out in this section has not been independently verified by us, the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriter(s) or any other party or affiliate involved in the Share Offer and neither they give any representations as to its accuracy and the information should not be relied upon in making, or refraining from making, any investment decision.

SOURCE OF INFORMATION

We have commissioned Frost & Sullivan, an Independent Third Party, to conduct a study of figure toy industry in Hong Kong, Japan and Mainland China. We agreed to pay Frost & Sullivan a fee of HK\$690,000 for the preparation of the Independent Market Research China, Hong Kong, Macau and Japan ACG Figure Toy Market Study (“**Frost & Sullivan Report**”), and our Directors consider that such fee reflects market rates.

The methodology used by Frost & Sullivan in gathering the relevant market data in compiling the Frost & Sullivan Report included secondary research and primary interviews. Secondary research involves information integration of data and publication from publicly available resources, including official data and announcements from Hong Kong government departments, and market research on industry and enterprise player information issued by our chief competitors. Primary interviews are conducted with relevant institutions to obtain objective and factual data and prospective predictions. Frost & Sullivan considers the source of information as reliable because (i) it is general market practice to adopt official data and announcements from various Hong Kong government departments; and (ii) the information obtained from interviews is for reference only and the findings in the Frost & Sullivan Report are not based on the results of these interviews. Frost & Sullivan has proven track records in providing market research studies to government departments/agencies and private clients in the regions where the Frost & Sullivan Report covers.

Frost & Sullivan is a global consulting company founded in 1961 in New York and has over 40 global offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists. Frost & Sullivan’s services include technology research, independent market research, economic research, corporate best practices advising, training, customer research, competitive intelligence and corporate strategy. Frost & Sullivan has four offices in Mainland China and direct access to the most knowledgeable experts and market participants in the catering industry.

INDUSTRY OVERVIEW

Frost & Sullivan conducts research on market size, share and segmentation analyses, competitor tracking and corporate intelligence, etc. Some of the information extracted from the Frost & Sullivan Report are also referred to in the sections headed “Summary”, “Risk Factors”, “Business” and “Financial Information” in this prospectus. Our Directors confirm that, after taking reasonable care, there is no adverse change in the market information since the date of the Frost & Sullivan Report which may qualify, contradict or have an impact on the information in this section.

Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Frost & Sullivan Report, various official government publications and other publications.

ASSUMPTIONS USED IN THE FROST & SULLIVAN REPORT

In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan has adopted the following assumptions: (i) the economy of Hong Kong is assumed to maintain steady growth across the forecast period; (ii) the social, economic and political environments of Hong Kong are likely to remain stable in the forecast period, which ensure the stable and healthy development of the catering market; and (iii) there is no war or large scale disaster during the forecast period.

RELIABILITY OF INFORMATION IN THE FROST & SULLIVAN REPORT

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

JAPAN ACG FIGURE TOY MARKET ANALYSIS

ACG figure toy refers to a poseable character figurine made of polyvinyl chloride (PVC), resincast, etc. A figure toy is generally based upon characters from an animation, comic book or video game.

ACG industry is well-developed in Japan. People with obsessive interests of animation, comic book or video games are regarded as Otaku. In recent years, the industry is stably developing due to the growing consumption power of Otaku, who are generally adults.

Japan was one of the major figure toy markets in the world due to the highly development of ACG industry. The overall market size of ACG figure toys was JPY35.1 billion in 2017. In recent years, even though suffering from the impact of fluctuations of macro economy and the shrinking population of children, Japan ACG figure toys market still maintained a generally steady growth with a CAGR of 1.5 percent from 2013 to 2017, mainly due to the increasing popularity of ACG industry and enlarging adult consumers.

INDUSTRY OVERVIEW

MARKET SIZE

Japan figure toy market increased from JPY33.1 billion in 2013 to JPY35.1 billion in 2017, representing a CAGR of 1.5% during the period. The recovering macro economy has driven the market in the past several years.

In the following years, with the further development of ACG industry, Japan figure toy market is expected to continue to grow. However, the growth of the market is expected to slow down due to the relatively stable economy comparing with the past several years. According to Frost & Sullivan, the total retail value of the figure toy market in Japan is forecast to reach JPY37.4 billion in 2022, growing at a CAGR of 1.3% from 2017.

Retail Value of ACG Figure Toy Market (Japan), 2013-2022E



Source: Frost & Sullivan

IMPORT

The major import partners of Japan in terms of ACG figure toys are Mainland China, the Philippines and Vietnam. Mainland China has been the largest import partner in recent years due to the high manufacture ability and low costs. In 2017, 59.2% of the imported ACG figure toys in Japan are manufactured in Mainland China. Philippines and South Korea accounted for 19.1% and 13.0% respectively.

MARKET DRIVERS

Continuous Growth of ACG Industry

Japan figure toys market was to a large extent driven by the continuous growth of ACG industry. The sales of ACG figure toys was largely impacted by the popularity of anime characters as well as comic books and games. Popular ACGs such as Gundam and Dragon Ball have largely driven the market of related productions including figures. According to the Association of Japanese Animations, the animation industry in Japan grew from around JPY1,470.9 billion in 2013 to around JPY2,067.1 billion in 2017, representing a CAGR of approximately 8.9%. The continuous growth of ACG industry as well as the popularity of anime characters and animation TV is expected to drive the further development of Japan toys market.

INDUSTRY OVERVIEW

Recovery of Macro Economy

Japan's economy was emerging from the deepest recession since the 1970s. Even though shocked by the earthquake and nuclear power plant disaster in 2011, Japan's economy was gradually recovering in recent years. More over, the government also launched a series of economy stimulus policies to accelerate the recovery of macro economy. According to International Monetary Fund (IMF), Japan's nominal GDP is expected to increase from JPY544.2 trillion in 2017 to JPY590.2 trillion in 2022. realizing a CAGR of 1.6% during the forecast period. The recovery of macro economy is likely to drive the further development of domestic toys market in Japan as well as improve the export situation of toys.

Enlarging Adult Consumers

Japan figure toy market has a rather large consumer base covering a wide range of ages. Comparing with other toys, figures have gained a popularity among adults in the past years. Based on research by the Association of Japanese Animations, approximately 16% of the Japanese who watch animations consumer related goods. The number reaches 25% for narrow age groups from 20 to 30. These figures for adult were generally more well-designed and manufactured, and hence are priced higher than toys for children. The trend resulted in the expanding of targeted consumer groups for figures and further brought a new development phase for figures.

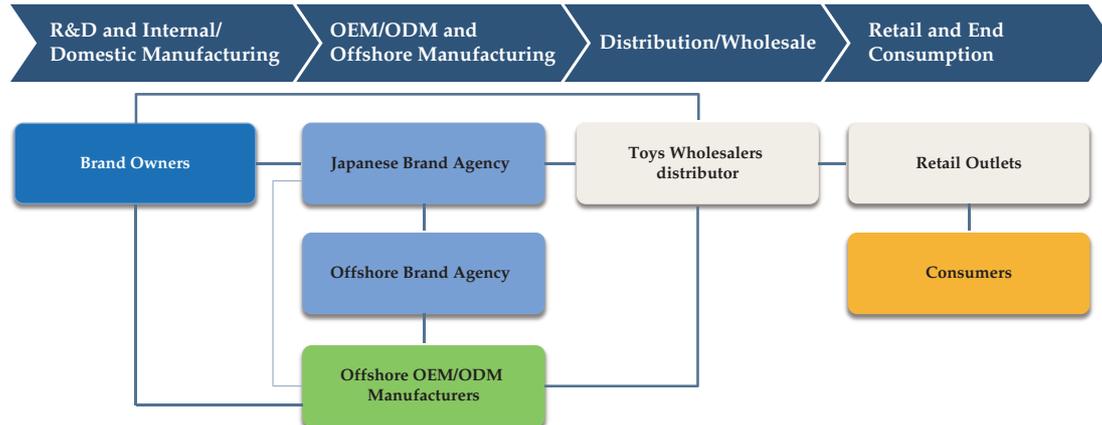
TYPICAL VALUE CHAIN

In the value chain for figure toys in Japan, domestic toy brand agency in Japan and offshore toy brand agency (mostly in Mainland China) play an important role in connecting the upstream and downstream as well as smoothing manufacturing process. Offshore toys brand agencies mainly focus on finding and managing the offshore OEM/ODM factories, doing the quality control and communicating with the Japanese parts. In the meanwhile, Japanese toy brand agencies take responsible for the toy's import and distribution. In most cases, brand owners are likely to offer technical guidance for the offshore factories in the process of manufacturing.

Generally, in this value chain, the brand owners, Japanese and offshore toy brand agency has established long-term relationship with each other and are not easily replaced by others.

INDUSTRY OVERVIEW

Typical Value Chain for Japan ACG Figure Toys Market



Note:

1. Toy Intermediary refer to companies that typically liaise between toy brand owners and toy OEM manufacturers. They help the brand owners to source the 'most appropriate' toy OEM manufacturers (i.e. those with the 'best fit' manufacturing capabilities/ techniques) for the toy products manufacturing.
2. In some cases, Japanese brand agency and wholesaler are acted by the same company or market player.

Source: Frost & Sullivan

FUTURE OUTLOOK

Japan figure toy brand owners are likely to cooperate with ACG companies and establish closer relationship with oversea manufacturers.

More Cooperation with ACG Companies

Thanks to the well development of Japanese ACG industry, these Japanese figure toy brand owners enjoy a lot of creations and market opportunities brought by anime industry. Japanese figure toys market, as a derivative industry of the ACG market, is highly impacted by the ACG industry. Hence, figure toys makers are willing to cooperate with the ACG companies and access the copyrights of popular ACG characters to attract customers. For the anime companies, they not only can generate licensing revenue, but also could enhance their brand awareness through wide range of sales channels. Therefore, in the future, the two parties are expected to work together to gain mutual benefits.

INDUSTRY OVERVIEW

More Offshore Outsourcing

An increasing number of Japanese figure toy brand owners are preferring to outsource manufacturing and even designing process to offshore partners in order to lower costs. Manufacturers in Mainland China and Southeast Asia countries are gaining popularity among Japanese figure toy brand owners due to the lower manufacturing costs. In the coming future, the figure toy brand owners are forecast to establish closer relationship with offshore manufactures and focus more on accessing the copyrights of popular IPs and marketing in order to gain higher additional value.

HONG KONG ACG FIGURE TOY MARKET

Hong Kong is a key exporter of a wide range of toys with particular strength in plastic toys, including ACG figure toys, dolls, doll houses and other accessories, construction sets, toy guns, and gimmicks such as beauty kits and doctor's kits.

Hong Kong is the world's leading ODM/OEM service market for ACG figure toys, and its strong position in this industry is primarily based on its crucial position in global logistics network, its mature and open trading systems, and its well-accumulated knowledge of upstream suppliers and downstream customers from all around the world.

To reduce operation costs and stay competitive, a majority of Hong Kong ACG figure toy ODM/OEM service suppliers have set up production facilities offshore, mainly on the Chinese mainland in Guangdong province. The role of their offices in Hong Kong shifts towards product design, production management, quality control, management, marketing, and finance. This skew towards higher value-added activities is sharpening the competitive edge of Hong Kong ACG figure toy ODM/OEM service suppliers, while expanding production capacity through relocation.

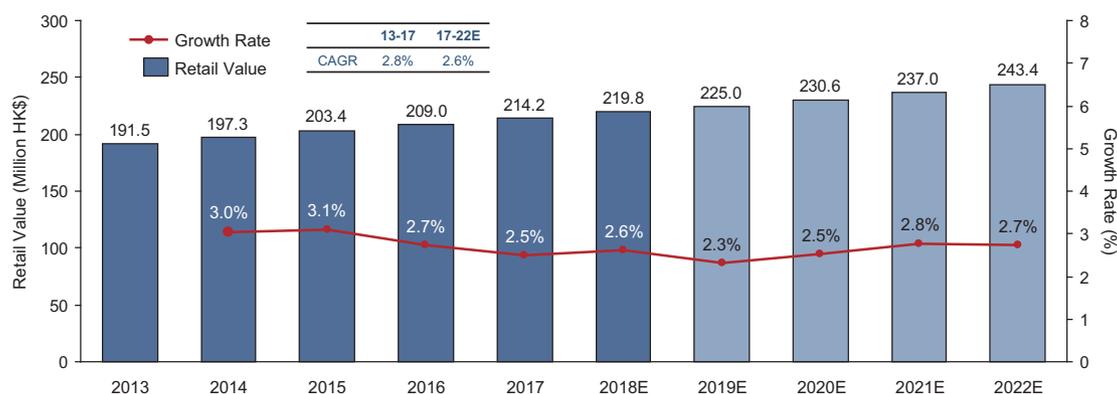
RETAIL MARKET SIZE

The Hong Kong figure toy market witnessed a growth from 2013 to 2017 mainly due to the gaining popularity of ACGs and the increasing willingness to consume ACG related goods among Hong Kong consumers.

INDUSTRY OVERVIEW

Considering the slowing down economy of Hong Kong, the growth rate of the retail market of Hong Kong figure toy is expected to growing at more stable rate in the coming years, reaching HK\$243.4 million in 2022 with a CAGR of 2.6%.

Retail Value of ACG Figure Toy Market (Hong Kong), 2013-2022E



Source: Frost & Sullivan

VALUE CHAIN MAPPING OF HONG KONG ACG FIGURE TOY ODM SERVICE MARKET

PVC is the key raw material for the manufacturing of ACG figure toy, and Mainland China is the largest producer of PVC with a capacity share of around 45% globally. Hong Kong ACG figure toy ODM service suppliers' in-house and outsourced production facilities are generally located in Mainland China, benefiting from the advantage of a handy supply of raw material.

Hong Kong ACG figure toy ODM service suppliers' key roles include product design, prototyping, production and production management, and quality control. Their deals mainly come from brand owners or licensees of relevant figures. The US and Japanese companies are major brand owners in this industry.

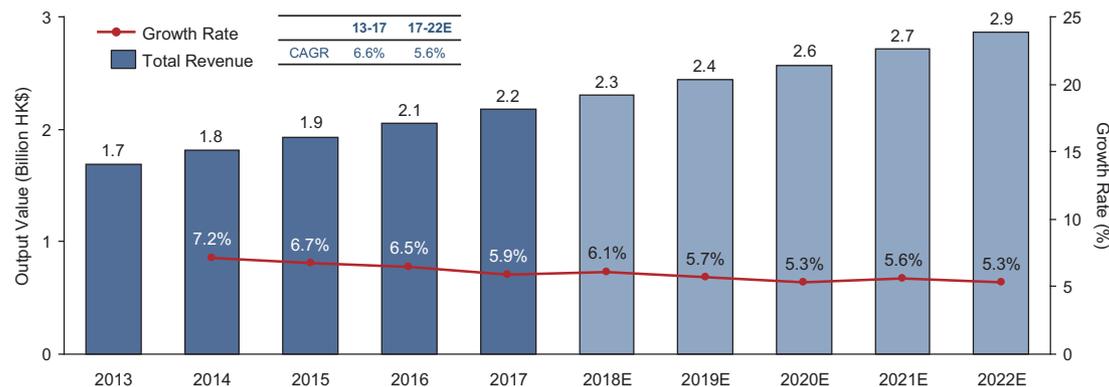
MARKET SIZE OF ACG FIGURE TOY ODM SERVICE MARKET

Hong Kong is one of the major production bases for ACG toys in the world. The ODM service market for ACG figure toys in Hong Kong grew from HK\$1.7 billion in 2013 to HK\$2.2 billion in 2017, representing a CAGR of 6.6%.

Though the growth rate is forecast to slowing down due to the stable economy environments of both Hong Kong the major consumption countries including Japan, USA and PRC, it is expected that the market would keep a growing trend due to the developing ACG industry. The market is expected to reach HK2.9 billion in 2022 with a CAGR of 5.6%.

INDUSTRY OVERVIEW

Total Revenue of ACG Figure Toy ODM Service Suppliers (Hong Kong), 2013-2022E



Source: Frost & Sullivan

MAJOR DRIVERS OF HONG KONG ACG FIGURE TOY ODM SERVICE MARKET

Increasing demand of ACG figure toys from developing economies

Global ACG figure toy market is expected to be boosted by the growing demand from developing economies, such as Mainland China, India, South American and Southeast Asian developing countries. With their increasing prosperity and people's rising standards of living, their expenditure on hobbies and interests is also likely to maintain a promising upward momentum. Meanwhile, economic developments in these countries are expected to continue bringing about media development, which supports expanded distribution of ACG content. According to Frost and Sullivan, the total revenue of China's ACG industry grew from approximately RMB87 billion in 2013 to RMB150 billion in 2017 with a CAGR of 14.6%. Meanwhile, the animation market in India grew from approximately INR40 billion to INR65 billion from 2013 to 2017 with a CAGR of approximately 13.3%. The forces together are likely to drive the growth of ACG figure toy market in developing countries. As Hong Kong is a leading player in global ACG figure toy ODM service market, it is expected to largely benefit from such increasing demand of end products from developing economies.

INDUSTRY OVERVIEW

Economic recovery in developed economies, such as the US and Japan

Worldwide economic recovery and growth is expected to continue to support the growth of the global ACG figure toy market as well as its upstream industries. Economic recovery is likely to support an increase in income and living expenditure, including spending on hobbies and interests. The US and Japan are world's leading markets for the consumption of ACG figure toys, and the recovery of their economy is likely to support the growth of global ACG figure toy market. According to Frost & Sullivan, the market of ACG figure toys in Japan grew from JPY33.1 billion to JPY35.1 billion during the period from 2013 to 2017, representing a CAGR of 1.5% and is likely to maintain the steady trend from 2017 to 2022. The retail value of action figures and accessories in the US grew from US\$1.7 billion in 2013 to US\$2.0 billion in 2017, representing a CAGR of 4.1% and is forecast to grow at a CAGR of 3.8% from 2017 to 2022. Hong Kong, as a key offshore ODM service partner of global ACG content and brand owners, is expected to benefit from such recovery and observe growth in ACG figure toy ODM service market.

Hong Kong ACG figure toy ODM service suppliers' increasing design and innovation capabilities

Hong Kong's ACG figure toy ODM service suppliers have transited from imitating designs to a higher level of originality, enabling them to handle more sophisticated orders from content and brand owners. Such transition is facilitated by the accumulation of experience and increasing investment in design team and relevant capabilities of Hong Kong's ACG figure toy ODM service suppliers.

ENTRY BARRIERS TO HONG KONG ACG FIGURE TOY ODM SERVICE MARKET

Reputation

ACG figure toy ODM service is generally an offshore operation, with significant complexity and uncertainty associated with the quality of service, and potential presence of agency problem. Brand owners and licensees tend to cooperate with leading service providers with extensive experience and good reputation for the mitigation of risks. Those leading ODM service suppliers who have entered the market early and showcased high quality delivery have set up a high barrier on reputation over new entrants.

INDUSTRY OVERVIEW

Business Network & Customer Relationship

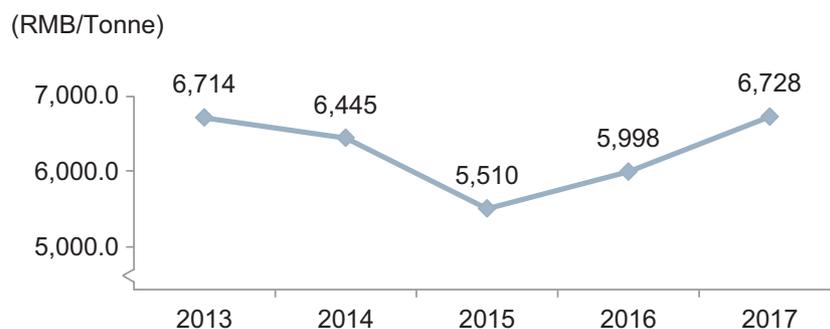
Established business network and customer relationship can be regarded as a barrier for the new entrants in Hong Kong's ACG figure toy ODM service market. Existing players in this market have already set up stable business networks based on which they accumulated knowledge on particular needs of their key customers. Meanwhile, customers also tend to engage ODM service suppliers who they have good track record with to ensure the quality and stableness of the deals. Thus, it is relatively difficult for new entrants to challenge incumbent players and develop their business networks in the initial development stage.

Operational Experience & Technical Knowhow

ACG figure toy ODM service suppliers also need substantial experience and technical knowhow for the overall production management and quality control, in particular for high-quality sophisticated ACG figures that require a high level of customization and manual work in production. New entrants to market might find it relatively difficult to set up a professional and technically skilled team for such management in a short period of time, especially when most of the skills and technical knowhow are derived from extensive working experience.

PRICE TRENDS OF MAJOR RAW MATERIAL COST

Average Price of PVC (China), 2013-2017



Source: Frost & Sullivan

INDUSTRY OVERVIEW

The key material used in manufacturing ACG figure toy is PVC. As Hong Kong ACG figure toy ODMs' manufacturing facilities generally locate in the Mainland of China, PVC is mainly sourced from China. Driven by the maturing of production technology and increase in production capacity, the average price of PVC in China observed a downward trend from 2013 to 2015. The rebound in 2016 was driven by the rebalance between supply and demand and the drop-out of outdated production capacity.

COMPETITIVE LANDSCAPE OF ACG FIGURE TOY ODM SERVICE MARKET IN HONG KONG

The ACG figure toy ODM service supplying market in Hong Kong is relatively fragmented with the top five companies together occupying 23.2% of the market share.

Company A and Company B led the market with shares of 5.3% and 5.2%, respectively. Company C ranked at the third place. Company D, a well-known brand owner who also provides ODM service, was at the fourth place with a market share of 4.2%. The Group, accounting for 3.9% of the market, ranked at the fifth place.

Top 5 ACG Figure Toy ODM Service Suppliers in Hong Kong Based on Total Revenue (Hong Kong), 2017

Ranking	Company	Market Share
1	Company A	5.3%
2	Company B	5.2%
3	Company C	4.6%
4	Company D	4.2%
5	The Group	3.9%
Top 5		23.2%
Others		76.8%
Total		100.0%

Total Market Size (2017): HK\$2.2 billion

Source: Frost & Sullivan

FUTURE OUTLOOK OF HONG KONG ACG FIGURE TOY ODM SERVICE MARKET

Brand Development

Hong Kong's ACG figure toy industry players have been gradually moving up the value chain, from a manufacturing role with lower added value to one that incorporate product and process design, production management, and quality control, and thus provides higher added value. Have accumulated affluent industry know-how and established mature value chain network, leading ODM service suppliers have stepped into the phase of brand development, when they set up their own brands for the sales of ACG figure toys. An increasing number of ODM service suppliers are expected to follow such pattern for their future development.

Increasing Integration

The provision of one-stop solution is considered to be a key trend of Hong Kong's ACG figure toy ODM service market. Leading players have started to integrate different roles which enable them to provide more value-adding services and increase their involvement along the value chain. From a demand-side point of view, such one-stop solution helps enhance brand owners' and licensees' efficiency and cost effectiveness, while from a supply-side point of view, service suppliers are able to increase their bargaining power and profitability, becoming increasingly competitive in the market. Thus value chain integration is considered to be a major trend.

HONG KONG LAWS AND REGULATIONS

This section sets forth a summary of certain laws and regulations of Hong Kong which are relevant to our Group's operations and business.

Product liability and safety

There is no comprehensive legislation in Hong Kong governing product liability and safety. Various ordinances and regulations impose criminal liability on manufacturers, retailers or suppliers of unsafe products. The key governing legislation is the Consumer Goods Safety Ordinance (Chapter 456 of the Laws of Hong Kong) (the "CGSO") which requires manufacturers, importers and suppliers of consumer products to comply with a general safety requirement or the safety standards and specifications prescribed by the Secretary for Commerce and Economic Development, and breach of such safety requirements carries criminal liability. Apart from criminal liability for unsafe products, the Commissioner of Customs and Excise also has various other powers to deal with such products. For example, the Commissioner has the power to serve a recall notice requiring the immediate withdrawal of any consumer goods or products which he believes to be unsafe and may cause serious injury.

Under the Toys and Children's Products Safety Ordinance (Chapter 424 of the Laws of Hong Kong) (the "TCPSO"), it is prohibited for any person to manufacture, import or supply a toy or children's product unless the toy or children's product complies with the relevant safety requirements outlined in the ordinance. Similar to the CGSO, there are criminal penalties for manufacturing, importing or supplying a toy which does not comply with the applicable standards.

In Hong Kong, contracts for the sale of goods are mainly governed by the Sale of Goods Ordinance (Chapter 26 of the Laws of Hong Kong) (the "SOGO"). The SOGO operates to imply certain terms or conditions and warranties into a contract for the sale of goods, for example in relation to their safety and suitability.

Further, the Control of Exemption Clauses Ordinance (Chapter 71 of the Laws of Hong Kong) (the "CECO") prohibits traders from evading certain types of civil liability by means of contract terms or other means. The CECO also regulates exemption clauses that might be incorporated in contracts for the sale of goods to consumers.

Apart from contractual obligations, manufacturers, importers and suppliers of products may owe duties of care under common law, in particular the law of negligence. For example, manufacturers, importers and suppliers owe a duty of care to the consumers of their products. If a manufacturer, importer or supplier discovers or has reasons to believe that a particular product may be unsafe, he may have to cease supply of the unsafe product, and give proper warning and instructions to those who have been supplied the unsafe product. Any person who undertakes to manufacture, import or supply a product, and who negligently performs his work and causes damage to other person or property, may be liable as a result. As such, individual consumers may have grounds to institute a civil claim based on breach of contract or the tort of negligence.

Trade Marks Ordinance (Chapter 559 of the Laws of Hong Kong) (the “TMO”)

The TMO and its subsidiary legislation, the Trade Marks Rules (Chapter 599A of the Laws of Hong Kong) (the “**Trade Mark Rules**”) provide for the registration and use of trade marks and related matters. As trade mark protection is territorial, trade marks registered in other jurisdictions are not automatically entitled to protection in Hong Kong. To enjoy protection as a registered trade mark in Hong Kong, the proprietor must register the trade mark with the Trade Marks Registry of the Intellectual Property Department of Hong Kong.

Section 10 of the TMO provides that a registered trade mark is a property right obtained by registration of the trade mark under the ordinance. The owner of a registered trade mark has the rights and is entitled to the remedies provided by the ordinance.

Pursuant to Section 14 of the TMO, the owner of a registered trade mark has exclusive rights in the trade mark which are infringed by use of the trade mark in Hong Kong without his consent. The rights of the owner of a registered trade mark have effect from the date of registration of the trade mark, which is the filing date of the application for registration.

Section 18 of the TMO outlines what constitutes infringement of a registered trade mark, but this is subject to the exceptions in Sections 19 to 21 of the TMO. An infringement of a registered trade mark is actionable by the owner of the trade mark, and all such relief by way of damages, injunctions, accounts or otherwise shall be available to the owner of a registered trade mark as is available in respect of the infringement of any other property right. In addition, there are various criminal offences under the TMO, for example, making a false representation that a trade mark is registered.

Trade marks which are not registered under the TMO and the Trade Marks Rules may still be protected by the common law action of passing off, which is a civil action against misrepresentation as to the source of goods and/or services. To found an action in passing off, the plaintiff’s goods and/or services must have acquired goodwill or reputation in Hong Kong, and there must be a misrepresentation in relation to the defendant’s goods and/or services, resulting in actual or likely damage to the plaintiff as a result of the misrepresentation.

REGULATORY OVERVIEW

Copyright Ordinance (Chapter 528 of the Laws of Hong Kong) (the “CO”)

The CO provides protection for original literary, dramatic, musical and artistic works, sound recordings, films, broadcasts and cable programmes, and the typographical arrangement of published editions.

Under Section 22 of the CO, the owner of the copyright in a work has the exclusive right to do the following acts in Hong Kong, which are “acts restricted by the copyright”:

- (a) to copy the work;
- (b) to issue copies of the work to the public;
- (c) to rent copies of the work to the public;
- (d) to make available copies of the work to the public;
- (e) to perform, show or play the work in public;
- (f) to broadcast the work or include it in a cable programme service; and
- (g) to make an adaptation of the work or do any of the above in relation to an adaptation.

If a person carries out any of the above acts without the copyright owner’s consent, this will constitute primary copyright infringement which carries civil liability.

A person may also incur civil liability if that person imports into or exports from Hong Kong, otherwise than for his private and domestic use, infringing copies of a work, or possesses, sells, distributes or otherwise deals with infringing copies of a work for the purpose of trade or business. However, the person will only be liable if, at the time he committed the act, he knew or had reason to believe that he was dealing with infringing copies.

Moreover, Section 118 of the CO also outlines various acts which would constitute criminal offences, for example, making for sale or hiring an infringing copy of a work without the licence of the copyright owner.

REGULATORY OVERVIEW

Registered Designs Ordinance (Chapter 522 of the Laws of the Hong Kong) (the “RDO”)

The RDO makes provision for registered design rights and related matters.

A “design” means features of shape, configuration, pattern or ornament applied to an article by any industrial process, being features which in the finished article appeal to and are judged by the eye. Pursuant to Section 5 of the RDO, a registrable design must be new. If a design is used in manufacturing, published or disclosed before filing, it will generally not be registrable as a registered design in Hong Kong.

As the design registration system in Hong Kong provides territorial protection, designs registered in other jurisdictions do not automatically receive protection in Hong Kong. To enjoy protection as a registered design in Hong Kong, the proprietor must register the design with the Designs Registry of the Intellectual Property Department of Hong Kong. However, registration of a design is not mandatory in Hong Kong.

Registration of a design grants to the owner the exclusive right to the design in relation to the article for which the design is registered. The period of protection of a registered design is renewable for five year periods, up to a maximum of 25 years.

An infringement of the right in a registered design is actionable by the registered owner and in any action in respect of such an infringement all such relief, by way of damages, injunction, account of profits or otherwise shall be available to the plaintiff as is available in proceedings in respect of the infringement of other proprietary rights. In addition, there are various criminal offences under the RDO, for example, making a false representation that a design is registered.

Trade Descriptions Ordinance (Chapter 362 of the Laws of Hong Kong) (the “TDO”)

The TDO prohibits false trade descriptions in relation to both goods and services. A false trade description is one which is false to a material degree or, though not false, is misleading.

“Trade description” is broadly defined to cover indications, direct or indirect, and given by whatever means, of various matters with respect to goods or parts of goods, including quantity, composition and fitness for purpose, strength, performance, behavior, and accuracy.

Section 7 of the TDO states that it is a criminal offence for a person, in the course of trade or business, to apply a false trade description to any goods or sell or offer for sale any goods with false trade descriptions applied thereto. Section 7A of the TDO provides that a trader who applies a false trade description to a service supplied or offered to be supplied to a consumer, or supplies or offers to supply to a consumer a service to which a false trade description is applied, commits an offence.

REGULATORY OVERVIEW

In July 2013, the TDO was amended to prohibit specified unfair trade practices deployed by traders against consumers, which are found in Sections 13E, 13F, 13G, 13H and 13I of the TDO. These unfair trade practices, which constitute criminal offences, are: false trade descriptions of services, misleading omissions, aggressive commercial practices, bait advertising, bait-and-switch, and wrongly accepting payment.

A person who commits an offence under Sections 7, 7A, 13E, 13F, 13G, 13H or 13I of the TDO shall be subject, on conviction on indictment, to a fine of HK\$500,000 and to imprisonment for five years, and on summary conviction, to a fine at HK\$100,000 and to imprisonment for two years.

Our Group's revenue attribution of customers in Japan and the United States was approximately 66.9% and 5.5% for the year ended 31 March 2016, approximately 62.4% and 4.3% for the year ended 31 March 2017 and approximately 67.7% and 1.4% for the nine months ended 31 December 2017, respectively. The following paragraphs set forth certain legal and regulatory requirements in Japan and the United States that may relate to the export and sale of our products to these countries.

JAPAN SUMMARY OF RELEVANT LAWS AND REGULATIONS

Product Liability Act

Japan has two legislations regarding product liability and product safety.

- (a) The Product Liability Act, which was enacted in 1994, provides that manufacturer of a product and other specified parties are liable for damages to life, body or property of others which is caused by the defect in the delivered product which was manufactured, processed, imported, or provided by the parties.
- (b) Further, the Consumer Product Safety Act has been amended in 2007 to expand the reporting obligations of manufacturers and importers, especially in relation to serious product incidents. Under this obligation, manufacturers and importers must, within ten days after becoming aware of a "Serious Product Incident," file a Serious Incident Report that includes a brief description of the accident and possible causes. The Act defines "Serious Product Incident" as, inter alia, fire, carbon monoxide poisoning, physical injury requiring 30 days or more for recovery and other serious physical injuries.

REGULATORY OVERVIEW

The Product Liability Act provides that the following individuals or entities are liable for damages caused by the defect in the product:

- (a) any person who manufactured, processed, or imported the product in the course of trade;
- (b) any person who provides his/her name, trade name, trademark or is otherwise indicated on the product as the manufacturer of such product, or any person whose representation of name, etc. on the product misleads others into believing that he/she is the manufacturer; and
- (c) any person who through his/her representation of name, etc. on the product, in light of the manner concerning the manufacturing, processing, importation or sales of the product, and other circumstances, holds himself/herself out as its actual manufacturer.

However, if any of the following is proved, such parties will not be liable for the damage:

- (a) the defect in the product could not have been discovered given the state of scientific or technical knowledge at the time when the manufacturer, etc. delivered the product; or
- (b) in case where the product is used as a component or raw material of another product, the defect occurred primarily because of the compliance with the instructions concerning the design given by the manufacturer of such other product, and that the manufacturer, etc. is not negligent with respect to the occurrence of such defect.

Japan Specific Sector Regulations

The following are examples of industry-specific product safety regulations in Japan.

SG Mark

The Consumer Product Safety Association, which was established under the Consumer Product Safety Act, established the “SG Mark” system. The Consumer Product Safety Association establishes safety standards for baby products, welfare equipment, furniture and other products, and allows manufacturers of products that satisfy the safety standards to affix the “SG Mark” on the product. If an injury to human body caused by such products occurs, the Consumer Product Safety Association will provide compensation to the victim of the injury.

ST Mark

The Japan Toy Association established the “ST Mark” system for toys. Manufacturers of toys that satisfy the safety standards established by the Japan Toy Association may affix the “ST Mark” on the toys. If an injury to human body or property caused by such toys occurs, the Japan Toy Association will provide compensation to the victim of the injury.

PSE Mark

Under the Electrical Appliance and Material Safety Act, import or sales of certain electrical appliance specified in the Act must satisfy the safety standards under the Act. The manufacture or seller of the product must affix the “PSE Mark” on the products that satisfy the safety standards. Import or sales of the specified electrical appliance which does not bear the “PSE Mark” is prohibited.

Japan Intellectual Property Laws

Patent

The Japanese patent registration system is based on the Patent Act (*Tokkyo Ho*, Law No. 121 of 1959, as amended). The registration system is designed to give to inventors, or their assignees, the right to apply for the grant of patent rights over their inventions. Inventions (*hatsumei*) are defined in Article 2(1) of the Patent Act as “the highly advanced (*kodo-na*) creation of technical ideas by which a law of nature is utilized.”

Utility Model

The Japanese intellectual property system also provides for the protection of utility models by allowing the registration of “devices” (*koan*) under the Utility Model Act (*Jitsuyo Shin-an Ho*, Law No. 123 of 1959, as amended). Devices are defined in Article 2(1) of the Utility Model Act as “the creation of technical ideas by which a law of nature is utilized.” Ideas that do not qualify for protection as an “invention” under the Patent Act because the idea is not a highly advanced creation may still be eligible for registration as a “device” under the Utility Model Act.

Designs

Designs may be protected by registrations with the JPO pursuant to the provisions of the Japanese Design Act (*Isho Ho*, Law No. 125 of 1959, as amended). The Article 2(1) of the Japanese Design Act (“**JDA**”) provides that “design” means the shape, patterns or colors, or any combination thereof, of an article (including a part of an article) which creates an aesthetic impression upon the eye. Accordingly, a design of a part of an article (e.g., a design of a handle portion of a motorcycle) may be inherently registrable as well as a design of an entire article.

Trademark

Trademarks are protected primarily by registration with the JPO pursuant to the provisions of the Trademark Act (*Shohyo Ho*, Law No. 127 of 1959, as amended). Because of Japan’s first-to-file orientation, it is generally advisable that even trademarks still in the planning stage be promptly applied for. As a signatory of the Paris Convention, Japan allows an applicant to claim “Convention priority” in respect of trademark applications filed in other Paris Union member countries within six months prior to the filing date of the Japanese trademark application.

Copyright

The law protecting copyrights is the Copyright Act (*Chosakuken Ho*, Law No. 48 of 1970, as amended; Copyright Act). The administrative body charged with enforcing the Copyright Act is the Agency for Cultural Affairs of the Ministry of Education, Culture, Sports, Science and Technology. There is no requirement to register the ownership of a copyright under the Copyright Act. The Copyright Act recognizes copyrights, neighboring rights, moral rights, and rights of publication.

USA LAWS AND REGULATIONS

Summary of product liability laws

The United States legal system is comprised of both federal and state legal systems. Federal laws generally apply throughout the United States, and in some instances federal law cannot be preempted by state law. But generally speaking, states have the right to enact their own laws to govern activity in its state. This is especially true in the product liability context.¹

There is no federal product liability regime in the United States. While there are federal laws and implementing regulations that address consumer product (e.g., U.S. Consumer Product Safety Act (“CPSA”), 15 U.S.C. § 2051 et seq. and implementing regulations at 16 CFR 1100 et seq., those laws do not provide an individual right of action related to defective consumer products. Rather, each of the 50 states in the United States has its own product liability regime, with its own state-specific nuances. Some states have adopted a statutory product liability scheme, while others rely on common law (or law derived from judicial precedent). While there are many differences between the various states’ product liability laws and how they are applied by courts in those states, there are some general similarities in them.

Strict product liability and negligence

Product liability claims are intended to cover personal injuries or property damage caused by a product’s defect. Product liability plaintiffs in the United States generally have a lesser burden than other tort plaintiffs, since in most states they may rely on the doctrine of strict liability to prove their claims. The doctrine of strict liability has been adopted in virtually every state of the United States and is the most important basis for liability in U.S. product liability litigation. In general terms, the doctrine of strict liability provides that any party who manufactures, distributes, or sells a product containing an unreasonably dangerous defect is subject to liability for physical harm caused to any foreseeable user of the product or to property, other than the product itself. Defects may be in the design or manufacture of the product, or in the instructions and warnings provided to the injured party.

¹ In enacting product liability statutory regimes, or in assessing common law product liability claims, state legislatures and state judges have opted to follow either the 2nd or 3rd Restatement of Torts, which details the basic elements of product liability claims and related defenses. Many of the concepts discussed herein come directly from one of these two versions of the Restatement.

REGULATORY OVERVIEW

Negligence claims may also be raised in some states, in addition to strict liability claims, to recover for personal injuries caused by a defective product. In a negligence claim, the plaintiff must establish that the manufacturer did not exercise a proper degree of care in designing or manufacturing the product, or in preparing sufficient instructions and warnings. Strict liability claims are distinguished from negligence claims, because, in strict product liability claims, the manufacturer may have exercised reasonable care with respect to the product, but the product was defective nonetheless. Strict liability therefore is seen as providing the burden of proof that is the least difficult for the plaintiff to establish, as the plaintiff needs to establish only that the product contained an unreasonably dangerous defect.

Definition of “defective/unsafe product” under applicable legislation

While the definitions of a defective or an unsafe product differ from state to state, products are generally considered defective when they are dangerous due to their failure to perform in the manner reasonably to be expected in light of their nature and intended function.²

The three generally recognized categories of unreasonably dangerous defects are a “design defect,” a “manufacturing defect,” and a “labeling/warning defect.” For example, a product may be defective if it is designed in such a way that it is unsafe for its intended use. A manufacturing defect may arise when an unintended condition of a product causes harm. Manufacturing defects may result from any flaw or deficiency at any stage of the manufacturing process, and also may result from the improper production, packaging, or transportation of the product. A product may also be defective if it fails to provide adequate warnings or instructions about dangers in the product that are known to exist, or should be known to exist, in connection with the use – or the foreseeable misuse – of the product.

2 While applicable to consumer products sold in interstate commerce in the United States, the regulations associated with the CPSA, 16 CFR 1115.4, set forth some guidelines for a company to follow in assessing whether a product contains a defect:

At a minimum, defect includes the dictionary or commonly accepted meaning of the word. Thus, a defect is a fault, flaw, or irregularity that causes weakness, failure, or inadequacy in form or function. A defect, for example, may be the result of a manufacturing or production error; that is, the consumer product as manufactured is not in the form intended by, or fails to perform in accordance with, its design. In addition, the design of and the materials used in a consumer product may also result in a defect. Thus, a product may contain a defect even if the product is manufactured exactly in accordance with its design and specifications, if the design presents a risk of injury to the public. A design defect may also be present if the risk of injury occurs as a result of the operation or use of the product or the failure of the product to operate as intended. A defect can also occur in a product's contents, construction, finish, packaging, warnings, and/or instructions. With respect to instructions, a consumer product may contain a defect if the instructions for assembly or use could allow the product, otherwise safely designed and manufactured, to present a risk of injury.

Persons liable

Under strict liability, the persons who may be held liable include any party in the chain of manufacturing and distribution of the product, including the manufacturer, wholesalers, distributors and retailers of the product. Each party is liable for any defects contained in the product at the time of the party's sale of the product. The plaintiff is entitled to sue and recover damages from any of these parties, but is only permitted to recover his or her full damages once (that is, he or she can only be "made whole" once).

However, a manufacturer typically remains primarily liable for the products it produces and sells, and is therefore usually deemed the primary party responsible for product defects. It may also be seen as being responsible for the actions of its vendors, suppliers and/or distributors and dealers.

Innocent parties in the supply or distribution chains may be held strictly liable and obligated to pay for the plaintiff's damages under the variations of joint and several liability discussed below. Assuming a supplier's components suffered from no defects in their own right, and that there is no independent liability against a distributor, retailer or dealer, contribution and/or indemnification from the manufacturer may be available. In many cases, such parties will request indemnity from the manufacturer as soon as it is sued, and will typically attempt to "tender the defense" of the action to the manufacturer immediately.

This right of contribution and/or indemnification is limited in the event the supplier, distributor and/or retailer/dealer has independent liability.

Once liability is established, who pays for the injured party's damages must be established. A small number of states adopt a several liability model, resulting in defendants being responsible to the plaintiff only for his or her degree of fault. Most states have adopted some form of joint and several liability, which makes each of multiple defendants liable for the entirety of the plaintiff's loss, regardless of each defendant's degree of fault. While some states follow a pure version of joint and several liability, most states have adopted middle-of-the-road approaches. In some states, joint and several liability applies to some portion of damages, such as the economic loss, and several-only liability applies to the rest. Other states adopt variable rules where the type of liability turns on some aspect of the plaintiff's cause of action, such as joint and several liability being triggered only for intentional torts, or after a certain percentage of fault is reached.

REGULATORY OVERVIEW

Some states allow a defense related to the contributory negligence of the plaintiff or other parties. As to the plaintiff, the law of contributory negligence varies among U.S. states. Originally, any degree of negligence by plaintiff completely barred recovery. But now the majority rule in U.S. courts is a modified form of “contributory” negligence called “comparative” negligence. States vary in their fault allocation schemes, but, generally speaking, under the comparative negligence doctrine, if the defendant has some fault, the plaintiff can recover from the defendant, even if the plaintiff also has some fault. However, the plaintiff’s recovery is reduced by the percentage of fault attributed to the plaintiff.

SINGAPORE LAWS AND REGULATIONS

Product liability and safety

There is no single comprehensive legislation in Singapore governing product liability and safety. Product liability claims are governed under various statutes and the common law. The two main pieces of legislation dealing generally with consumer protection are the Consumer Protection (Trade Descriptions and Safety Requirements) Act (Chapter 53) (“CPA”) and the Consumer Protection (Fair Trading) Act (Chapter 52A) (“CPFTA”), and their underlying subsidiary legislation.

CPA

The CPA prohibits the application of a false trade description in the course of trade, or the supply of goods for trade to which a false trade description has been applied. Section 2(1) of the CPA defines “trade description” broadly and includes details relating to the method of manufacture, production, processing or reconditioning of any goods, the composition of any goods, the approval of any goods by any person or their conformity with a type approved by any person, and the testing of any goods by any person and the results thereof. The penalty of committing the offence of applying a false trade description is a fine not exceeding SG\$10,000 or to imprisonment for a term not exceeding 2 years or both.

The Consumer Protection (Consumer Goods Safety Requirements) Regulations made under the CPA (“CGSR”) apply to general consumer goods (including toys), and state that they must conform to applicable national or regional safety standards. The Standards, Productivity and Innovation Board in Singapore (“SPRING”) is the safety regulator for these general consumer goods. If a product is found to be unsafe, SPRING has the power to order the supplier to stop the sale and notify consumers of the unsafe product. Failure to comply with SPRING’s directive can result in a fine not exceeding SG\$2,000 or to imprisonment for a term not exceeding 12 months or both.

REGULATORY OVERVIEW

CPFTA

The CPFTA deals with deceptive, unfair or misleading trade practices in consumer transactions. It allows a consumer to claim against the supplier for any unfair practice. Under Section 4 of the CPFTA, it is an “unfair practice” for the supplier to do any of the following:

- do or say anything, or omit to do or say anything, if as a result a consumer might reasonably be deceived or misled;
- make a false claim; and
- take advantage of a consumer if the supplier knows or ought reasonably to know that the consumer is not in a position to protect his own interests, or is not reasonably able to understand the character, nature, language or effect of the transaction or any matter related to the transaction.

Further, a list of 24 specific instances of unfair practices is also set out in the Second Schedule of the CPFTA.

Part III of the CPFTA provides certain remedies to consumers against defective goods which fail to conform to the terms of the contract at the time of delivery. They include the repair or replacement of goods, and the reduction in amount to pay for the goods, or rescission of the contract. Finally, Section 13(1) of the CPFTA prevents a supplier from excluding a consumer’s rights in respect of goods that do not conform to the CPFTA by contract. The consumer’s rights prevail despite any agreement to the contrary and any term in the contract is void to the extent that it is inconsistent with consumer rights.

Sale of Goods Act (Chapter 393) (“SOGA”)

In Singapore, contracts for the sale of goods are also governed by the SOGA. The SOGA implies certain undertakings as to quality and fitness of purpose (amongst others) in domestic contracts of sale. It is possible under certain circumstances to exclude or limit the liability under the SOGA. However, such exclusion or limitation of liability will be subject to the Unfair Contract Terms Act (Chapter 396) (“UCTA”).

UCTA

While any person can exclude or limit its civil liability to the aggrieved party for the defective products by means of contract terms and notices, terms that exclude or limit liability will generally be subject to statutory controls under UCTA. Section 2(1) of the UCTA states that a term that excludes or limits liability for death or personal injury resulting from negligence is fully unenforceable. Section 2(2) of the UCTA states that a term that excludes or limits liability resulting from negligence for any loss or damage other than for death or personal injury (such as property damage) is enforceable to the extent that the term satisfies the test of reasonableness.

REGULATORY OVERVIEW

Further, in the case of goods of a type ordinarily supplied for private use or consumption, or when one of the contracting parties deals as consumer, certain statutory protections apply. Section 3(2)(a) of the UCTA states that a party cannot exclude any liability in respect of his breach by reference to any contract term for a breach of contract unless the exclusion or limitation of liability clause satisfies the test of reasonableness. Section 5(1) of the UCTA states that a party cannot exclude or limit its liability for loss or damage arising from a defective goods while in consumer use and resulting from the negligence of a person concerned in the manufacture or distribution of the good.

Common law

Common law claims include those based contract law or tort law. Apart from contractual obligations, manufacturers, importers and suppliers of products may owe duties of care under common law, in particular the law of negligence. For example, manufacturers, importers and suppliers owe a duty of care to the consumers of their products. If a manufacturer, importer or supplier discovers or has reasons to believe that a particular product may be unsafe, he may have to cease supply of the unsafe product, and give proper warning and instructions to those who have been supplied the unsafe product. Any person who undertakes to manufacture, import or supply a product, and who negligently performs his work and causes damage to other person or property, may be liable as a result. As such, individual consumers may have grounds to institute a civil claim based on breach of contract or the tort of negligence.

There is generally no clear concept of strict liability in relation to defective goods in Singapore.

Patents

The Patents Act (Chapter 221) (“PA”) and its subsidiary legislation, the Patents Rules, provide for the registration of patents in Singapore. For an invention to be patentable under the PA, it must meet the substantive requirements for patentability, including novelty, inventive step, and industrial application. The invention must also meet all other requirements provided under the PA.

As patent protection is territorial in nature, separate patent applications must be filed in each country/territory where protection is desired. To obtain patent protection in Singapore, an applicant may file a domestic application directly with the Intellectual Property Office of Singapore (“IPOS”), or rely on an international application filed under the Patent Cooperation Treaty system with IPOS or directly with the International Bureau of the World Intellectual Property Organization.

REGULATORY OVERVIEW

While a patent is in force, an infringement of the patent when any of the following acts are committed in Singapore without the consent of the owner of the patent: (a) where the invention is a product — to make, dispose of, offer to dispose of, use or import the product or keep it whether for disposal or otherwise; or (b) where the invention is a process — (i) to use or offer to use it with knowledge, actual or constructive, that its use without the consent of the owner would infringe the patent; or (ii) to dispose of, offer to dispose of, use or import any product obtained directly by means of that process, or to keep any such product whether for disposal or otherwise. However, there are certain exceptions provided set out in Section 66 of the PA which are considered non-infringing acts, for example, where the act is done privately and for non-commercial purposes.

If infringement is found, the proprietor is entitled to all such relief by way of damages, injunctions, accounts of profits or otherwise. There are also various criminal offences as set out Part XVIII of the PA, for example, making a false representation that a patent has been applied for in respect of any article disposed of for value by the proprietor and no such application has been made.

Trade Marks

The Trade Marks Act (Chapter 332) (“TMA”) and its subsidiary legislation, the Trade Mark Rules provide for the registration and use of trade marks in Singapore. Under the TMA, a “trademark” is defined as *“any sign capable of being represented graphically and which is capable of distinguishing goods or services dealt with or provided in the course of trade by a person from goods or services so dealt with or provided by any other person.”* The sign in question must be capable of being represented graphically, and it must also be capable of distinguishing the goods and/or services of the proprietor.

As trade mark protection is territorial in nature, separate applications must be made in each country/territory where protection is desired. To obtain trade mark protection in Singapore under the TMA, a domestic application for a trade mark can be filed with the Intellectual Property Office of Singapore (“IPOS”), or as Singapore is a member to the Madrid Protocol, an international application designating Singapore can be filed with IPOS or directly with the International Bureau at the World Intellectual Property Office.

Registration of a trade mark provides the proprietor with the exclusive rights to use (or authorise persons to use) the trade mark, and the proprietor is entitled to remedies provided under TMA for infringement of its trade mark. Infringement occurs when any person, without consent of the proprietor, uses, in the course of trade, a sign that is identical or similar to the registered trade mark in relation to the goods and/or services which are identical or similar with those for which it is registered, and there exists a likelihood of confusion on the part of the public. In respect of well-known trade marks, which are also registered trade marks under the TMA, infringement proceedings may be commenced against the use of an identical or similar trade mark, even for dissimilar goods or services, if such use is likely to indicate a connection between those goods and services and the proprietor of the well-known mark, there exists a likelihood of confusion on the part of the public because of such use, and the interests of the registered owner are likely to be damaged by such use.

REGULATORY OVERVIEW

If infringement is found, the proprietor is entitled to all such relief by way of damages, injunctions, accounts of profits, statutory damages or otherwise. There are also various criminal offences as set out in Part VI of the TMA, for example, any person who counterfeits a registered trademark.

Trade marks which are not registered under the TMA, may still be protected under the common law tort of passing off. Proprietors of unregistered trade marks that may be in use in the market but are not subject of a pending application or registration, can bring a civil action against a person for the misrepresentation as to the source of goods and/or services.

Registered Designs

The Registered Designs Act (Chapter 266) (“**RDA**”) and its subsidiary legislation, the Registered Designs Rules, provide for the registration of designs in Singapore. Under the RDA, a “design” refers to the features of shape, configuration, colours, pattern or ornament applied to any article or non-physical product that give that article or non-physical product its appearance. For a design to be registrable, it must not have been registered or disclosed anywhere in the world before filing.

As design protection is territorial in nature, separate applications must be made in each country/territory where protection is desired. To obtain design protection in Singapore under the RDA, a domestic application for a design can be filed with the Intellectual Property Office of Singapore (“**IPOS**”), or as Singapore is a party to the Geneva (1999) Act of the Hague Agreement, an international application designating Singapore can be filed with IPOS or directly with the International Bureau at the World Intellectual Property Office.

Registration of a design provides the proprietor with the exclusive rights to manufacture, import or sell any article in respect of which the design is registered and to which that design or a design not substantially different from it has been applied. Infringement occurs when any of the above acts are carried out without the consent of the registered design owner.

If infringement is found, the proprietor is entitled to all such relief by way of damages, injunctions, accounts of profits or otherwise. There are also various criminal offences as set out in Part VI of the RDA, for example, making a false representation that a design is registered.

Copyright

The Copyright Act (Chapter 63) (“**CA**”) and its subsidiary legislation, the Copyright Rules, provide protection for original literary, dramatic, musical and artistic works, sound recordings, cinematograph films, televisions and sound broadcasts, cable programmes, and published editions of literary, dramatic, musical and artistic works.

REGULATORY OVERVIEW

There is no system of copyright registration in Singapore. For copyright to subsist in Singapore, the work must have some connection to Singapore (for example, if the author is a citizen of, or resident in, Singapore, or if the work was made or first published in Singapore). Additionally, since Singapore is both a member of the Berne Convention and a signatory to the TRIPs Agreement, copyright protection has now been extended to works first published in and/or by authors who are citizens or residents of more than 150 foreign countries around the world.

Part III and IV of the CA sets out the exclusive rights of the copyright owner in relation to the various types of works and subject matter. Infringement may be primary, i.e., the doing (or authorizing of the doing) of acts conferred exclusively on the owner of copyright, by a person other than the owner and without the owner's consent, or secondary, i.e., unauthorized commercial dealing in infringing copies of copyright-protected works.

If infringement is found, the proprietor is entitled to all such relief by way of damages, injunctions, accounts of profits, statutory damages or otherwise. Copyright infringement may also attract criminal penalties. For example, a person who distributes unauthorized copyright work for the purposes of trade may be liable on conviction to a fine or imprisonment.

TAIWAN LAWS AND REGULATIONS

I. Consumer Protection Act ("CPA")

To protect the rights and interests of the consumers, the CPA was promulgated on 11 January 1994. The most recent amendment on the CPA was on 17 June 2015.

1. *The Business Operators:* Under the CPA, the business operators include any person who engages in the design, production, manufacturing, import and/or distribution of goods or provision of service. The business operators should offer proper instructions, provide adequate and accurate information to ensure fair transaction, and take measures necessary to protect the consumers.
2. *Liability without Fault:* Articles 7 and 9 of the CPA provides for no fault obligations for business operators engaging in designing, producing or manufacturing of goods or in provisions of services, or for those engaging in the importation of goods. The obligations include:
 - (1) Goods or services provided should meet and comply with the contemporary technical and professional standards with reasonably expected safety requirements. And whether the business operators perform such obligations will be considered based on the information labels on the goods or services; the reasonably expected use or acceptance of the goods or services; and the point of time when placing the goods or rendering the services into the stream of commerce (*Article 5 of the Enforcement Rules of CPA*). And the business operators should bear the burden of proof of his or her performances of the obligations (*Article 7-1*).

REGULATORY OVERVIEW

- (2) Warning signs and method to handle an urgent and dangerous harm to lives, bodies, health or properties of consumers.

The business operators should be jointly and severally liable in violating the above obligations and thereby causing injury or damage to consumers or third parties, provided that if the business operators can prove that they have not been negligent, the court may reduce damages. Moreover, business operators engaging in distributing and marketing goods should also be jointly and severally liable with those engaging in designing, producing or manufacturing, except for such business operators have exercised due care for prevention of such injuries and damages; or injuries and damages would still have occurred even if due care had exercised.

3. *Recall obligations:* The business operator should immediately recall the goods or discontinue the services provided when there are sufficient facts support that such goods or services may present potential dangers to the health and safety of the consumers, except for business operators have adopted necessary measures sufficient to remove or prevent such harm or danger.
4. *The Punitive Damages:* Where litigation brought in accordance with CPA, the consumers may claim for a punitive damage up to 5 times the amount of actual damages as a result of injuries caused by the willful misconduct of the business operators. However, if such injuries are caused by gross negligence, a punitive damage up to 3 times the amount of the actual damages may be claimed; if such injuries caused by negligence, a punitive damage up to one time the amount of the actual damages may be claimed.
5. *Liability cannot be excluded or restricted in advance:* Business operators are prohibited to exclude or restrict liability as against consumers or third parties in advance.
6. *Standard Terms and Conditions:* Business operators shall provide a reasonable period, not longer than 30 days, for consumers to review all contract clauses, before entering into a standard contract. The terms and conditions adopted by business operators in standard contracts made consumer waive the right prescribe in the previous paragraph shall be invalid.

Any standard terms and conditions in violation of the good faith requirements are unconscionable to consumers, shall be rendered null and void.

II. Taiwan Specific Regulations for Toys

The followings are specific safety requirements and regulations for toys in Taiwan.

1. *Toy Safety National Standards 4797 (“CNS 4797”):*

First, any products which are designed, manufactured, sold, displayed or indicated for children under 14 should receive the inspection process according to the Commodity Inspection Act and the guidelines of the toys inspection. Further, the toys must comply with the general safety standards under CNS 4797 promulgated by the Bureau of Standards, Metrology and Inspection (“BSMI”). The toys should only be released from the production premises, or be exported or imported, after conforming to the inspection requirements in the inspection process and being affixed with a commodity inspection mark issued by the BSMI.

Furthermore, the violation of the commodity inspection process will be imposed with a fine between NTD 200,000 (approximately USD6,666) up and NTD 2 million (approximately USD66,666) according to Article 60 of the Commodity Inspection Act.

2. *The ST Mark:* Apart from the CNS 4797, the Taiwan Children’s Commodities R&D Center (“R&D Center”) also established “ST Mark” system for toys manufactures to satisfy the standards established by the R&D Center may affix the ST Mark on the toys. If any injury to human body or property loss caused by the toys, the R&D Center may provide compensation to the manufacturers.

3. *Labeling for Toys:* The Guidelines for the Labeling of Toys (“Guidelines”) was promulgated by The Ministry of Economic Affairs (“MOEA”) in 1993. And the most recent amendments in 2004. Under the Guidelines, where a toy is introduced for sale on the market, the manufacture should label the name of the toy, the manufacturer information, the fabric and the materials, the users’ guidelines, the warnings and details about suitable age.

III. The Patent Act (Last amended on 18 January 2017)

1. *Types of Patents:* According to the Patent Act, patents are classified as inventions, utility models and new designs.
 - (1) An invention is defined as “a creation of technical concept(s) by which natural rules are utilized.” A patent application for such an invention shall not be granted if one of the following circumstances exists.
 - (2) The utility model is defined as “a creation or an improvement of the shape, construction, or assembly of an object.” An application for a utility model shall not be granted if one of the above listed circumstances for an invention patent exists.
 - (3) A design patent is defined as “the creation made in respect of a shape, pattern, color, or the combination thereof of an Article appealing to the eyes.”
2. *The Infringement of Patent Rights:* The current Patent Act has eliminated criminal liabilities for invention, utility model and design patent infringement. Under the civil action, the patentee has an exclusive right to prevent others from exploiting the invention without the patentee’s consent, so the injured party may seek injunctive relief to demand a person who infringes or is likely to infringe to stop or prevent such infringement.

In case an infringement of patent occurs due to intentional act or negligence, the patentee may claim for damages suffered therefrom, and can choose the measure of damages from among several options. In addition, the injured party may also claim a reasonable amount of compensation for any damage to the goodwill of their business as a result of the patent infringement. If the infringement is intentional, the court may also award punitive damages up to thrice the amount of the loss.

IV. The Copyright Act (Last amended on 30 November 2016)

In view of the development of new digital technologies, a significantly amended draft of the Copyright Act was submitted by the Executive Yuan in October 2017 to the Legislative Yuan for review.

1. *The Scope of Copyright:* Upon completion of a work, the author is given the exclusive economic rights to reproduce, recite, broadcast, present, perform, exhibit or rent the work, and to create derivative works and compilations. Further, the Copyright Act also grants several new rights to copyright owners, including public transmission right, protection for “electronic rights management information” and “technological protection measures.” In addition, the author also has exclusive moral rights in the work which may not be assigned or inherited, and which will remain after the author’s death or dissolution (unless the acts are not considered to be contrary to the intent of the author).
2. *Criminal Liability:* Under the Copyright Act, a person who infringes on the economic rights of another person by means of reproducing the work without authorization, by distributing should be subject to imprisonment and fine.

Further, the infringement of another’s economic rights by public recitation, public broadcast, public presentation, public performance, public transmission, public display, adaptation or renting without authorization may also be subject to the imprisonment and fine.

3. *Civil Liability:* Article 84 of the Copyright Act provides that a copyright owner may demand the removal of an infringement and may request the prevention of an infringement that is likely to occur. In addition, the owner may request the destruction or disposal of the articles made during the infringement or items used solely to commit the infringement. The owner may also claim for compensation for damages in several options.

Furthermore, if the injured party has difficulty proving the actual damages, the court may assess the damages in a range between TWD10,000 (approximately USD333) and TWD1 million (approximately USD33,333), depending on the seriousness of the infringement. The damages may be increased up to TWD5 million (approximately USD166,665) if the infringement is intentional and serious. Finally, the injured party can request the infringer to bear the costs to have the contents of the judgment published in newspapers or magazines.

V. **The Trademark Act (Last amended on 15 December 2016)**

1. *What can be registered:* Any person who desires to obtain the rights of their trademarks may apply for registration of the trademark (*Article 2, Trademark Act*). According to Article 18 of the Trademark Act, a trademark refer to any sign with distinctiveness, which may consist of, but is not limited to, words (letters and/or characters), device, symbol, color, three-dimensional shape, motion, hologram, sound or any combination thereof.
2. *Criminal Liability:* Criminal action can be taken against a person if he or she commits the trademark infringements.

If criminal action is taken and an offender is successfully prosecuted, he can be imprisoned for up to three years and/or fined up to TWD200,000 (approximately USD6,666).

3. *Civil Liability:* The grounds for bringing a civil action under Trademark Act for trademark infringements include Article 68, the infringement of other's registered trademark. Article 70 of the Trademark Act was added to strengthen the protection for well-known registered marks.

In a civil matter, a trademark owner can claim for damages, request that the infringement be terminated and request the destruction of all marks and the relevant documents used in connection with the infringement, or which enable the infringer to commit the infringement. And the damages can be calculated in a number of ways. In addition to bringing a civil action for trademark infringement, a mark owner can also bring a civil action to prevent a likelihood of infringement or a "threatened infringement." Further, prior to bringing the civil action, the mark owner may also petition for a preliminary injunction in order to restrain the defendant's activity before obtaining the court's formal judgment.

4. *The Unregistered Marks:* An unregistered mark can enjoy some level of protection if it achieves well-known status (the "**Trademark Act and Fair Trade Act**"). In addition, the Fair Trade Act ("**FTA**") also prohibits one use in the same or similar manner, the well-known personal name, business or corporate name, or trademark of another, or container, packaging, or appearance of another's goods, or any other symbol that represents such person's goods, on the same or similar goods, so as to cause confusion with such person's goods, or selling, transporting, exporting, or importing goods bearing such representation.

A breach of the prohibition is subject to civil liabilities, including injunction and damage compensation of up to treble damages (in case of willful infringement) or the profits earned from the infringement.

BUSINESS DEVELOPMENT

The history of our Group can be traced back to September 2004 when Mr. Li, being our co-founder and Chairman, established Bestone Creative. With the business networks of Mr. Li accumulated over his previous employments, Bestone Creative started to design and manufacture toys for Wing Co., Ltd. (being a member of our largest customer group, namely Customer Group A, during the Track Record Period) on ODM basis since 2005. Mr. Li has more than 12 years of experience in the ACG toy industry. For further details, please refer to the section headed “Directors and senior management” in this prospectus.

By early 2006, Mr. Li considered that it was in the long-term interest of our Group to diversify its business focus from selling ODM toys based on his experience observations that (i) companies which are capable of developing and distributing its own licensed toys of ACG characters generally attain higher profit margins than those solely engaged in selling ODM toys; and (ii) leveraging on our experience and capability acquired in designing and manufacturing ODM toys, Mr. Li considered that Japanese licensors would have confidence in our ability to develop quality toys based on their ACG characters.

By around mid-2006, Mr. Li discussed his business plan with two Japanese individuals (the “**Japanese Individuals**”) and invited them to be co-founders of Sentinel Hong Kong, in view of their familiarity with the ACG figure toy industry in Japan and connections with Japanese licensors.

In December 2008, Mr. Li and the Japanese Individuals (being independent third parties during the Track Record Period and as at the Latest Practicable Date) established Sentinel Hong Kong with the original plan to develop and distribute its own licensed toys based on Japanese ACG characters.

Shortly after Sentinel Hong Kong commenced its business, Mr. Li, together with the Japanese Individuals, have approached and negotiated with several Japanese licensors on potential licensing arrangement with Sentinel Hong Kong. After the discussion with these licensors, Mr. Li understood that the Japanese licensors would prefer to keep the license rights of their ACG characters to companies wholly-owned by Japanese. Therefore, Sentinel Hong Kong was unsuccessful in obtaining the license rights in Japanese ACG characters from the Japanese licensors.

Considering the response from Japanese licensors, the Japanese Individuals decided to: (i) transfer their shareholdings in Sentinel Hong Kong to Mr. Li; and (ii) set up their own business venture in Japan to obtain license rights from Japanese licensors.

In August 2009, Mr. Li purchased the shareholdings of the Japanese Individuals in Sentinel Hong Kong. Immediately after the aforesaid share transfers, Sentinel Hong Kong became wholly-owned by Mr. Li. In July 2009, the Japanese Individuals and other parties (independent of Mr. Li and our Group) set up Sentinel Japan (being a member of our largest customer, namely Customer Group A, during the Track Record Period), which was successful in obtaining license rights of various ACG characters from Japanese licensors subsequently. Since 2009, we have designed and manufactured toys for Sentinel Japan on ODM basis, and subsequently acted as its distributor outside Japan.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Sentinel Japan and Wing Co., Ltd. were both classified as Customer Group A during the Track Record Period since they had a common shareholder during the Track Record Period according to information publicly available. For details, please refer to the paragraph headed “Business — Customers — Relationship between Sentinel Japan and Wing Co., Ltd.” in this prospectus.

In view of the growing popularity of superhero-themed movies worldwide, since 2013, Sentinel Hong Kong has started to cooperate with licensors of various renowned US entertainment and toy brand companies and developed our own licensed toys based on ACG characters featuring in popular animation and comic series.

In recent years, we have been expanding our distribution platforms. We have set up our online store, “D4TOYS.COM”, in 2012 and established our flagship store, “千值殿/SEN-TI-DEN”, in Hong Kong in 2015. Since 2015, we have had consignment sales arrangement with certain shopping arcade, department store chains, a toy store chain and a convenience store chain in Hong Kong. Please refer to paragraph headed “Business — Sales and marketing” in this prospectus for details.

BUSINESS MILESTONES

The key milestones in the development of our Group are as follows:

- | | |
|------|---|
| 2004 | Bestone Creative was incorporated in Hong Kong. |
| 2005 | Bestone Creative started to design and manufacture toys for Wing Co., Ltd. on ODM basis. |
| 2006 | Lai Ga was incorporated in Hong Kong. |
| 2008 | Sentinel Hong Kong was incorporated in Hong Kong. |
| 2009 | Sentinel Hong Kong designed and manufactured toys for Sentinel Japan on ODM basis. |
| 2010 | D4 Toys was incorporated in Hong Kong. |
| 2012 | Our online store, “D4TOYS.COM”, was set up in Hong Kong.

We started to engage in distribution of imported toys. |
| 2013 | In October 2013, we started to cooperate with licensor of a renowned US entertainment brand company (namely Licensor A) and developed our own licensed figures based on a popular US superhero ACG character. |

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

- 2015 Moon One was incorporated in Hong Kong.
- Our flagship store, “千值殿/SEN-TI-DEN”, was set up.
- We founded the “TOPI” brand for development and distribution of our own licensed toys.
- 2016 In July 2016, we started to cooperate with licensor of a renowned US entertainment brand company (namely Licensor B) and developed our own licensed figures based on ACG characters featuring in (i) an animated television series; and (ii) a superhero-themed comic book series.
- In November 2016, we started to cooperate with licensor of a renowned US toy brand company (namely Licensor C) and developed our owned licensed figures based on ACG characters featuring in a robot-themed comic series.
- 2017 In January 2017, Licensor A granted us the license rights to develop figures series based on ACG characters featuring in a classic superhero comic series (including over 100 characters).
- In December 2017, we launched a figure based on an ACG character featuring in a robot-themed comic series of Licensor C under the “FLAME TOYS” brand.

CORPORATE DEVELOPMENT

Set out below are the history, reorganisation and corporate structure of our operating subsidiaries in Hong Kong:

Bestone Creative

Bestone Creative carries out design and sale of toys and related products and was incorporated in Hong Kong on 6 September 2004. As at the date of incorporation, Bestone Creative was owned as to 50% by Mr. Li and 25% each by two individuals (namely “**Independent Third Party A**” and “**Independent Third Party B**”, being independent third parties during the Track Record Period and up to the Latest Practicable Date).

On 15 June 2005, Independent Third Party B acquired 25% interest in Bestone Creative from Independent Third Party A for a consideration of HK\$2,500 with reference to the par value of the transferred shares. On 15 May 2006, Mr. Li acquired 50% interest in Bestone Creative from Independent Third Party B for a consideration of HK\$5,000 with reference to the par value of the transferred shares. Since 15 May 2006 and before the Reorganisation, Bestone Creative was wholly owned by Mr. Li.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Lai Ga

Lai Ga carries out design and sale of toys and related products and was incorporated in Hong Kong on 16 November 2006. Since the date of incorporation and before the Reorganisation, Lai Ga was wholly owned by Mr. Li.

Sentinel Hong Kong

Sentinel Hong Kong carries out design and sale of toys and related products and was incorporated in Hong Kong on 5 December 2008. As at the date of incorporation, Sentinel Hong Kong was owned as to 33.33% by Mr. Li and 66.67% by the two Japanese Individuals.

On 12 August 2009, Mr. Li acquired all of the Japanese Individuals' shares in Sentinel Hong Kong for an aggregate consideration of HK\$8,000 with reference to the par value of the transferred shares. Since 12 August 2009 and before the Reorganisation, Sentinel Hong Kong was wholly owned by Mr. Li.

D4 Toys

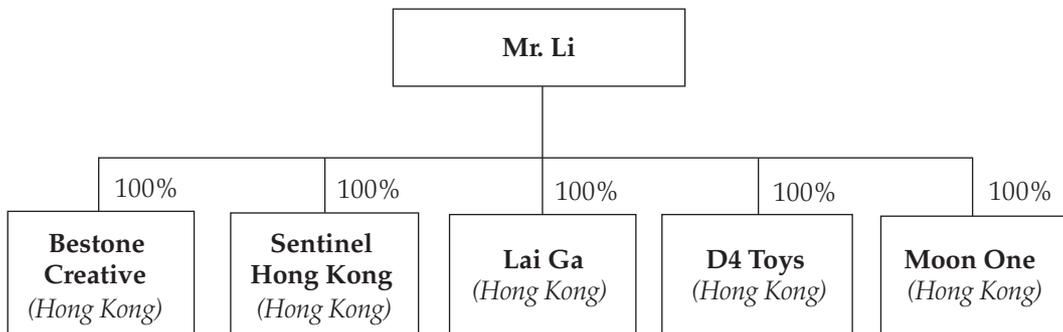
D4 Toys carries out sale and marketing of toys and was incorporated in Hong Kong on 11 November 2010. Since the date of incorporation and before the Reorganisation, D4 Toys was wholly owned by Mr. Li.

Moon One

Moon One carries out sale and marketing of toys and was incorporated in Hong Kong on 27 October 2015. Since the date of incorporation and before the Reorganisation, Moon One was wholly owned by Mr. Li.

REORGANISATION

The following diagram illustrates our corporate structure before the Reorganisation:



Incorporation of Amuse

Amuse was incorporated in the BVI with limited liability on 20 October 2015, which is authorised to issue 50,000 shares with a par value of US\$1.00 each. Amuse issued and allotted one share on the date of incorporation and further 9,999 shares on 30 March 2016 to Mr. Li at par value.

Acquisition of interest in Amuse by New Express

Being the Pre-IPO Investment, Mr. Li and New Express entered into a sale and purchase agreement on 20 April 2016, pursuant to which New Express conditionally agreed to purchase 1,500 shares of Amuse, representing 15% of the issued share capital of Amuse, from Mr. Li at a consideration of HK\$9,000,000, which was arrived at after arm's length negotiations between Mr. Li and New Express with reference to the price-to-earnings ratio of the investment of approximately 6 times, based on the aggregate net profit of our operating subsidiaries in Hong Kong for the financial year ended 31 March 2015 at approximately HK\$10.7 million. The Pre-IPO Investment was completed and settled on 27 April 2016, upon which Amuse was owned as to 85% by Mr. Li and 15% by New Express. For further details of the Pre-IPO Investment, please refer to the paragraph headed "Pre-IPO Investment" below in this section.

Incorporation of our Company

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on 16 November 2016 to act as the holding company of our Group for the Listing. The initial authorised share capital of our Company was HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. On 16 November 2016, (i) one subscriber Share was issued and allotted to the initial subscriber, who on the same day transferred that one Share to New Express; and (ii) our Company issued and allotted, at par value, 1,499 Shares to New Express and 8,500 Shares to Infinite Force, an investment holding company wholly-owned by Mr. Li, upon completion of which our Company was owned as to 85% by Infinite Force and 15% by New Express.

Acquisition of our operating subsidiaries in Hong Kong

On 21 February 2017, Mr. Li transferred all the issued shares in Bestone Creative, Lai Ga, Sentinel Hong Kong, D4 Toys and Moon One to Amuse. As consideration, Amuse allotted and issued a total of 8,500 shares and 1,500 shares to Mr. Li and New Express, respectively.

On 7 March 2017, each of Mr. Li and New Express transferred all of their shares in Amuse to our Company. As consideration, our Company allotted and issued 8,500 Shares and 1,500 Shares to Infinite Force and New Express, respectively.

Upon completion of the abovementioned transfers, each of Bestone Creative, Lai Ga, Sentinel Hong Kong, D4 Toys and Moon One became an indirect wholly-owned subsidiary of our Company.

Incorporation of D4 Oversea and Sentinel US

D4 Oversea was incorporated in the BVI with limited liability on 16 December 2016, which is authorised to issue 50,000 shares with a par value of US\$1.00 each. On the date of its incorporation, D4 Oversea allotted and issued 50,000 shares to Mr. Li at par value.

Sentinel US was incorporated in the U.S. with limited liability on 24 January 2017, which is authorised to issue 10,000 shares with a par value of US\$1.00 each. On the date of its incorporation, Sentinel US allotted and issued one share to D4 Oversea at par value. Sentinel US was incorporated for setting up our representative office in the US.

To achieve better coordination of our overseas distributors, we currently intend to establish three overseas representative offices in our sales territories including the US, Taiwan and Singapore. To this end, our Group has established the subsidiary Sentinel US. As at the Latest Practicable Date, our Directors have commenced preliminary preparatory works in relation to the establishment of representative office in the US. No subsidiary or branch has been established in Taiwan and Singapore as at the Latest Practicable Date.

Acquisition of D4 Oversea

On 30 March 2017, Mr. Li transferred all the issued shares in D4 Oversea to Amuse for a consideration of US\$50,000, equivalent to the total par value of the transferred shares.

Upon completion of the abovementioned transfer, D4 Oversea became an indirect wholly-owned subsidiary of our Company.

PRE-IPO INVESTMENT

The Background

In July 2015, Mr. Li, our executive Director and Chairman, became acquainted with Mr. Chan Cheong Yee (“**Mr. Chan**”), a director of China Investment and Finance Group Limited, the shares of which are listed on the Stock Exchange (stock code: 1226) (“**CIF**”) through the 17th ACG HK 2015 (2015 (第17屆) 香港動漫電玩節). During this occasion, Mr. Chan showed his preliminary interests in the ACG toy industry and recognised our trademarks in relation to the “*SENTINEL/千值練*” brand as well as our reputation in the ACG toy industry in Hong Kong, while Mr. Li was aware that CIF is an investment company listed on the Stock Exchange with investment in numerous listed companies in Hong Kong. Mr. Li and Mr. Chan subsequently met in several occasions through which Mr. Li further introduced the trend and opportunities of the ACG toy industry in Asia, our business activities, products, business model and prospect and also showed Mr. Chan some figure toys and product samples designed and developed by us.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

As our management was exploring the feasibility and opportunity of listing of our Group on the Stock Exchange in order to finance the further expansion of the product portfolio of our own licensed toys and to support the payment of mould costs, production costs and license fees, Mr. Li revealed the intention of listing of our Group to Mr. Chan who, through the aforesaid discussions, became more familiar with our business and operation and expressed the interest of CIF for investment in our Group in November 2015. In mid-December 2015, Mr. Chan, on behalf of CIF, made a preliminary offer to Mr. Li for investment in our Group through New Express, a wholly-owned subsidiary of CIF.

In mid-February 2016, Mr. Li confirmed with Mr. Chan that he intended to establish a long-term relationship with CIF to explore further business opportunities in the ACG toy industry, and accepted CIF to invest in our Group as a financial investor by selling part of his interests in Amuse to New Express. Between February and March 2016, Mr. Li and Mr. Chan engaged in several rounds of negotiations on the details of the investment. In mid-March 2016, both parties preliminarily agreed that 15% of the issued share capital of Amuse shall be transferred from Mr. Li to New Express at a consideration of HK\$9,000,000.

The Investment

On 20 April 2016, New Express and Mr. Li entered into a sale and purchase agreement, pursuant to which New Express conditionally agreed to purchase 1,500 shares of Amuse, representing 15% of the issued share capital of Amuse, from Mr. Li at a consideration of HK\$9,000,000, which was arrived at after arm's length negotiations between Mr. Li and New Express with reference to the price-to-earnings ratio of the investment of approximately six times, based on the aggregate net profit of our operating subsidiaries in Hong Kong (namely Bestone Creative, Lai Ga, Sentinel Hong Kong, D4 Toys and Moon One) for the financial year ended 31 March 2015 at approximately HK\$10.7 million, taking into account the following factors: (i) the business plans and future prospects of our Group, mainly include expanding the product portfolio of our own licensed toys, which may (a) reduce our reliance on sourcing imported toys from overseas toy licensees, (b) maintain our competitive strengths in the industry and (c) maintain our profitability due to higher profit margin generated in respect of sales of own licensed toys; (ii) the historical financial performance of our Group, showing a trend of growth in our revenue; (iii) the substantial knowledge and experience of our management team in the ACG figure toy market; (iv) the reputation of our Group in the ACG figure toy ODM service market in Hong Kong; and (v) the potential of our Group to be listed on the Stock Exchange. New Express and Mr. Li, having considered the factors above, took the view that the consideration of the Pre-IPO Investment was fair and reasonable.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The following table summarizes further details of the Pre-IPO Investment:

Information of Pre-IPO Investor	New Express is a limited company incorporated in Hong Kong and wholly owned by CIF
Completion date of the Pre-IPO Investment	27 April 2016
Date of payment of consideration	26 April 2016
Number of Shares held by New Express upon the Capitalisation Issue	112,500,000 Shares
Cost per Share paid by New Express (taking into account the Capitalisation Issue)	HK\$0.08
Discount to the Offer Price range (taking into account the Capitalisation Issue)	Between 68.0% and 77.1%
Undertaking by Mr. Li in relation to lock-up and no issuance of new shares	<p>Save and except actions taken in relation to the reorganisation of Amuse in relation to the application of the Listing,</p> <p>(i) Mr. Li shall not, among other things, transfer, dispose of or pledge any of his direct or indirect interest in Amuse unless with the prior written consent of New Express; and</p> <p>(ii) Mr. Li shall not, and shall procure Amuse not to issue any new shares, options or other instruments convertible into new shares of Amuse.</p> <p>Such covenant and undertaking shall automatically expire upon the Listing.</p>

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Shareholding in our Company upon the completion of the Pre-IPO Investment	15%
Shareholding in our Company upon Listing	11.25%
Use of proceeds by our Group	Not applicable
Special rights	Not applicable
Strategic benefits to our Company	<p>The Pre-IPO Investment would serve as an endorsement of our performance, strength and prospects, and strengthen and diversify the shareholders' portfolio of our Company. CIF, in its capacity as a substantial shareholder of our Company, has participated in the discussions of the Reorganisation. It is expected that CIF, being a listed company on the Stock Exchange with focus on investments in small to medium size listed companies in Hong Kong, would be able to from time to time provide its views and suggestions on improvement of our Group's corporate governance structure to the Board for its consideration, in the capacity as our Substantial Shareholder.</p>
Public float	<p>The Shares held by New Express are not considered as part of the public float for the purpose of Rule 11.23 of the GEM Listing Rules as New Express will be our Substantial Shareholder upon the Listing.</p>

Lock-up

New Express has executed a letter of undertaking on 14 May 2018, pursuant to which it undertakes to the Sponsor and the Underwriters that it will not dispose of or otherwise encumber any of its interests in our Company during the period from 14 May 2018 and ending on the date which is 12 months from the Listing Date (both days inclusive).

CIF has executed a letter of undertaking on 14 May 2018, pursuant to which it undertakes to the Sponsor and the Underwriters that it will not dispose of or otherwise encumber any of its interests in New Express during the period from 14 May 2018 and ending on the date which is 12 months from the Listing Date (both days inclusive).

Save for the sale and purchase agreement in relation to the Pre-IPO Investment, there was no agreement or arrangement, either oral or written, between CIF and our Group, our Shareholders, Directors, members of senior management or any of their respective associates in respect of the Pre-IPO Investment.

Save for participating in the discussions of the Reorganisation in the capacity as a Pre-IPO Investor, each of New Express and CIF and any of its subsidiaries, substantial shareholders, directors or senior management did not have any involvement or render any advice or assistance in respect of the Listing application of our Company.

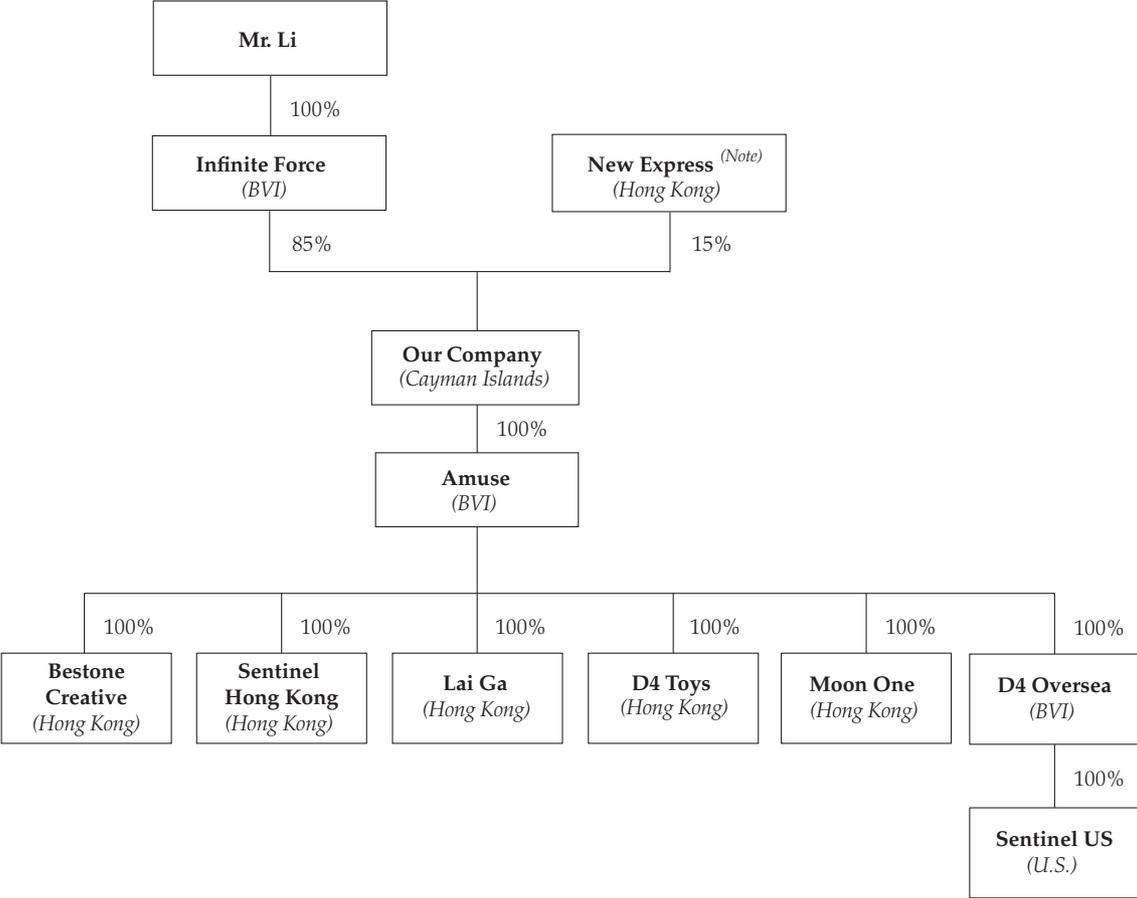
Save for the Pre-IPO Investment, each of New Express and CIF is independent of and not connected with our Group and/or any connected person(s) of our Company.

Sponsor's Confirmation

The Sponsor is of the view that the Pre-IPO Investment was in compliance with the guidance letter HKEx-GL29-12 (issued in January 2012 and updated in March 2017) and HKEx-GL43-12 (issued in October 2012, updated in July 2013 and March 2017) issued by the Stock Exchange and the Pre-IPO Investment has been completed at least 28 clear days before the date of the first submission of the listing application form in respect of the Listing.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

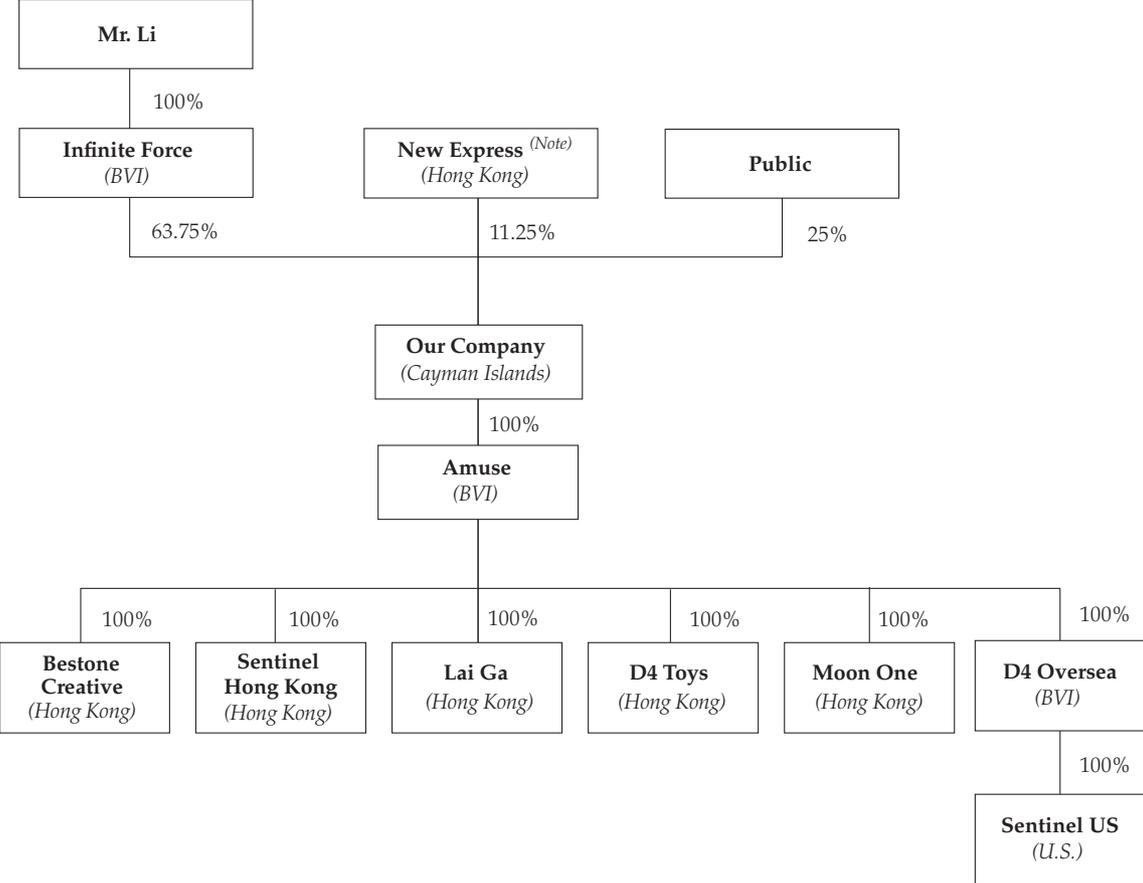
CORPORATE STRUCTURE FOLLOWING THE COMPLETION OF THE REORGANISATION AND THE PRE-IPO INVESTMENT



Note: New Express is wholly owned by China Investment and Finance Group Limited, a company whose shares are listed on the Stock Exchange (stock code: 1226).

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

CORPORATE STRUCTURE IMMEDIATELY AFTER THE COMPLETION OF THE SHARE OFFER (WITHOUT TAKING INTO ACCOUNT ANY SHARES THAT MAY BE ALLOTTED AND ISSUED UPON THE EXERCISE OF THE OPTIONS THAT MAY BE GRANTED UNDER THE SHARE OPTION SCHEME)



Note: New Express is wholly owned by China Investment and Finance Group Limited, a company whose shares are listed on the Stock Exchange (stock code: 1226).

BUSINESS

OVERVIEW

We are a Hong Kong-based toy company which carries out design, marketing, distribution and retail sales of toys and related products. Our product portfolio during the Track Record Period included (i) a variety of premium and general class figures based on popular third party owned ACG characters; and (ii) other related products such as pens and hair ties. Our Group's revenue is derived from sales of (i) ODM toys produced according to our customers' specifications and requirements; (ii) imported toys which were sourced from overseas licensees; and (iii) our own licensed toys developed by us based on license rights obtained from various licensors of US entertainment and toy brands. Our ACG figures, primarily targeted at adult consumers, could generally pose in various positions and gestures with movable joints and accessories. We have sold 31 and 27 major series of toys to our customers in each of the two years ended 31 March 2017, respectively. According to the F&S Report, we ranked fifth among ACG figure toy ODM service suppliers in Hong Kong in terms of share of total industry revenue in 2017.

The following table sets forth a breakdown of revenue during the Track Record Period by our business segment:

	For the year ended 31 March				For the nine months ended 31 December			
	2016		2017		2016		2017	
	HK\$'000	%	HK\$'000	%	(unaudited)			
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Sales of ODM toys ^(Note)	85,525	69.5	83,888	61.3	65,518	61.5	61,282	65.2
Distribution of imported toys	22,675	18.4	27,580	20.1	23,898	22.4	16,260	17.3
Sales of own licensed toys	14,954	12.1	25,420	18.6	17,122	16.1	16,460	17.5
Total	123,154	100.0	136,888	100.0	106,538	100.0	94,002	100.0

Note: It includes sales of both finished products and moulds.

BUSINESS

The majority of our revenue during the Track Record Period was derived from sales to our largest customer group (namely Customer Group A) based in Japan. For details, please refer to the paragraph headed “Customers” below in this section. Our sales of ODM toys decreased by approximately 1.9% from the year ended 31 March 2016 to the year ended 31 March 2017, and decreased by approximately 6.5% from the nine months ended 31 December 2016 to the nine months ended 31 December 2017, while our gross profit from this segment remained stable during the Track Record Period. The decrease of sales of ODM toys from the nine months ended 31 December 2016 to the nine months ended 31 December 2017 was mainly due to the decrease in the average selling price of ODM toys because we received (i) purchase orders from Sentinel Japan for two series of figures of premium ODM toys with relatively lower selling price and higher quantity in the nine months ended 31 December 2017; and (ii) purchase orders of general class ODM toys from Customer Group A for products with relatively higher volume and lower average selling price which require less sophisticated designs or limited number of moveable joints and components in the nine months ended 31 December 2017.

Our distribution of imported toys increased by approximately 21.6% from the year ended 31 March 2016 to the year ended 31 March 2017. This was mainly due to (i) the increase in number of our distributors; and (ii) the increase in sales attributable to products sourced from two Japan-based toy licensees (namely Supplier F and Supplier G). Our distribution of imported toys decreased by approximately 32.0% from the nine months ended 31 December 2016 to the nine months ended 31 December 2017. This was mainly due to (i) the decrease in sales of two general ACG figure series sourced from Sentinel Japan and Customer Group B by approximately HK\$0.6 million and HK\$1.8 million, respectively, in the nine months ended 31 December 2017, as compared to the nine months ended 31 December 2016; and (ii) the decrease in sales of two series of premium imported toys sourced from Sentinel Japan by approximately HK\$1.8 million and HK\$0.4 million, respectively, in the nine months ended 31 December 2017, as compared to the nine months ended 31 December 2016.

Our sales of our own licensed toys increased by approximately 70.0% from the year ended 31 March 2016 to the year ended 31 March 2017. This was mainly because (i) our Group has introduced additional series of figures based on a US superhero ACG character of Licensor A; (ii) our Group has launched a new series of polygon figures (多邊形公仔) based on a range of classic animation characters of Licensor A; and (iii) the sales of our “TOPI” brand mini-toys series increased significantly in the year ended 31 March 2017. Our sale of our own licensed toys decreased by approximately 3.9% from the nine months ended 31 December 2016 to the nine months ended 31 December 2017. This was mainly because (i) the sales of our “SENTINEL/千值練” brand superhero figures decreased in the nine months ended 31 December 2017 as compared to the nine months ended 31 December 2016; and (ii) we introduced less new series of polygon figures (多邊形公仔) and “TOPI” brand mini-toys in the first six months of 2017 due to the expiry of the relevant license agreement with Licensor A, which was subsequently renewed in July 2017. In December 2017, our Group launched a figure based on a ACG character featuring in a robot-themed comic series of Licensor C under the “FLAME TOYS” brand, which is targeted at high-end consumer market, following the launch of a movie sequel worldwide based on such robot-themed comic series in mid-2017. The revenue contributed by the sales of such robot-themed figure amounted to approximately HK\$3.1 million, representing 3.3% of our revenue for the nine months ended 31 December 2017.

BUSINESS

For further details, please refer to the paragraph headed “Our product category — Major trends in the sales and prices of our products” in this section.

Our services to our ODM customers mainly include (i) providing product design solutions; (ii) developing prototypes and moulds; (iii) supervising the outsourced production process; and (iv) implementing various quality control measures.

Our distribution platforms primarily include (i) local and overseas distributors; (ii) our online store and flagship store located in Hong Kong; and (iii) certain shopping arcade, department store chains, toy store chain and convenience store chain in Hong Kong which have consignment sales arrangement with us.

As we do not possess our own production facilities, we outsource the manufacturing, labelling and packaging of our toys and related products to our suppliers. We have implemented stringent measures in selection of suppliers and quality control. For further details, please refer to the paragraph headed “Quality control” below in this section.

Our revenue represents income derived from sale of toys and related products and our costs of operations mainly include production costs, mould costs and license fees, etc.

COMPETITIVE STRENGTHS

We believe that we have the following competitive strengths:

Working relationship with licensors of renowned US entertainment and toy brands

We pride ourselves in the working relationship with licensors of renowned US entertainment and toy brands. As at the Latest Practicable Date, we had the following licensing arrangements with our licensors:

- We had obtained from Licensor A the license rights to develop (i) figures based on over 100 ACG characters featuring in a classic superhero comic series; and (ii) mini-toys and polygon figures (多邊形公仔) based on ACG characters featuring in various animation series.
- We had obtained from Licensor B the license rights to develop figures and other products such as pens, toy cars and key rings based on ACG characters featuring in (i) an animated television series; and (ii) a superhero-themed comic book series.
- We had obtained from Licensor C the license rights to develop figures based on ACG characters featuring in a robot-themed comic series.

BUSINESS

For further details, please refer to the paragraph headed “Description of business operations — III. Sale of own licensed toys” in this section. We believe the working relationship with such licensors illustrates our capability to introduce new products, their recognition of our brands, the strength of our distribution networks, as well as our ability to capture the likeness and spirit of their licensed ACG characters in our products.

Established relationship with our largest customer group

We believe that our dedication to quality toys and competitive pricing over the years has contributed to our long-term relationships with our largest customer group. In relation to Customer Group A (being our largest customer group during the Track Record Period), we have had worked with Sentinel Japan and Wing Co., Ltd. for over 7.5 and 11 years, respectively. Please refer to the paragraph headed “Customers” below in this section for further details. Our Directors believe that our Group can leverage on our established relationship with Customer Group A to further develop new business opportunities in the ACG toy industry.

Diverse distribution platforms

Our distribution platforms mainly comprised (i) local and overseas distributors; (ii) our online store and flagship store in Hong Kong; and (iii) certain consignment sales channels.

The following table sets forth a breakdown of revenue generated from distribution of imported toys and sales of own licensed toys during the Track Record Period by sales channel:

	For the year ended 31 March				For the nine months ended 31 December	
	2016		2017		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Distributors ^(Note 1)	31,905	84.8	40,021	75.5	24,582	75.1
Flagship store	1,582	4.2	3,381	6.4	2,153	6.6
Online store	689	1.8	1,427	2.7	532	1.6
Consignment sales channels	104	0.3	1,480	2.8	642	2.0
Others ^(Note 2)	3,349	8.9	6,691	12.6	4,811	14.7
	<u>37,629</u>	<u>100.0</u>	<u>53,000</u>	<u>100.0</u>	<u>32,720</u>	<u>100.0</u>

Notes:

1. During the Track Record Period, Customer Group A and Customer Group B were both our ODM customers and distributors. As such, our revenue derived from sales of ODM toys to these two customer groups were classified as sales to ODM customers, while our revenue derived from sales of our imported toys and own licensed toys to these two customer Group were classified as sales to distributors.
2. These mainly include sales at toy exhibitions and trade fairs.

BUSINESS

For each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, we have recorded sales to a total of 43, 53 and 57 local and overseas distributors, respectively. Please refer to the paragraph headed “Customers” below in this section for details.

Our online store, “D4TOYS.COM”, was established in 2012 for selling toys and related products to customers worldwide (subject to geographical restrictions under the relevant license agreements). Online visitors could make purchase at our online store, and the purchased items would be delivered to them directly. In 2015, our flagship store “千值殿/SEN-TI-DEN” was set up in Hong Kong with the aim of promoting and selling toy products to retail customers. Our Directors believe that possessing our own retail channels enables us to interact directly with consumers and obtain first-hand information about the market response to our products.

We also have consignment sales arrangement with certain shopping arcade, department store chains, toy store chain and convenience store chain in Hong Kong during the Track Record Period. Please refer to the paragraph headed “Sales and marketing — consignment sales arrangement” below in this section for details. We believe this enhances the presence of our products in the market and optimizes the cost-effectiveness of product distribution.

With our diverse distribution platforms, we are able to reach out to consumers worldwide and sustain growth in the sale of our products.

Various brands for developing our own licensed toys

We applied the “SENTINEL/千值練” “TOPI” and “FLAME TOYS” brands in developing our own licensed toys during the Track Record Period. For further details, please refer to the paragraph headed “Description of business operations — III. Sale of own licensed toys” in this section. By applying various brands in product development, our Directors believe that we could increase the uniqueness of our own licensed toys, enhance the market presence of our Group and distinguish our Group from being a general toy distributor or retailer.

Our ability to carry out one-stop design and distribution for licensed toys

Our Directors believe that our ability to carry out one-stop design and distribution for licensed toys gives us competitive edges over toy companies which are solely engaged in either toy design or distribution operation. Since 2005, our Group has provided ODM services to customers ranging from product design, mould development, prototyping, production management and quality control. We have our in-house design and development team, which is headed by Mr. Li. Further, we have started our distribution operation for licensed toys since 2012, and developed a diverse distribution platform over the years (as further discussed in the paragraph headed “Sales and marketing” in this section).

BUSINESS

During the Track Record Period, some of our customers (namely Sentinel Japan of Customer Group A, Customer Group B and Customer G) have engaged us to design, produce and distribute its licensed toys. For further details, please refer to the paragraph headed “Customers — Customers who were also our suppliers” below in this section. Our Directors believe that this illustrate these customers’ confidence in both our design capability and distribution network.

Stringent selection of suppliers and quality control

As we do not possess our own production facilities, we engage our suppliers to perform manufacturing, labelling and packaging of our toys and related products. In order to deliver quality products to our customers, we place strong emphasis on selection of suppliers and quality control. Our supplier selection criteria are based not only on technical capabilities and cost considerations, but also on their track record in meeting our product requirements. We also impose a series of stringent quality control measures that our suppliers are required to strictly follow, including specification for raw materials, sampling product inspection and inspection of our suppliers’ premises, etc. For further details, please refer to the paragraph headed “Quality control” below in this section. Our Directors believe these measures have contributed to our success in gaining customers’ confidence in our products and are essential to our long-term development.

Experienced and dedicated management team

Our Directors believe that our past success and future prospect, to a large extent, depend on our experienced management team, which is experienced in the ACG figure toy market. Our Group is led by our founder and Chairman, Mr. Li, who has more than 12 years of experience in the ACG figure toy industry and is familiar with development of premium ACG toys. Mr. Li is familiar with the Japanese business culture and possesses extensive knowledge in industry development and market trend of ACG figure toy. We believe that his network is crucial to our Group’s success in the past and in the future.

BUSINESS STRATEGIES

The principal business objective of our Group is to further strengthen our overseas distribution network as well as to enhance the sales of our own licensed toys.

According to the F&S Report, the total retail value of the figure toy market in Japan is forecasted to increase from approximately 35.1 billion Japanese Yen in 2017 to approximately 37.4 billion Japanese Yen in 2022, while the total revenue of ACG figure toy ODM service suppliers in Hong Kong is forecasted to increase from approximately HK\$2.2 billion in 2017 to approximately HK\$2.9 billion in 2022. Having considered (i) our competitive strengths mentioned above; (ii) the increase in the sales of our own licensed toys during the two years ended 31 March 2017; and (iii) the forecasted growth in the total retail value of the figure toy market in Japan as well as the total revenue of ACG figure toy ODM service suppliers in Hong Kong, our Directors believe that our Group can expand our business on top of our present scale of operation if we are to continue to increase our available resources mainly including (i) the product portfolio of our own licensed toys; (ii) the scale of our overseas distribution network; (iii) size of our manpower; and (iv) the investment in enhancing our information technology system.

In this connection, our key business strategies are as follows:

Expanding the product portfolio of our own licensed toys

As at the Latest Practicable Date, we have in total four ongoing license agreements with licensors of various US entertainment and toy brands. In order to expand the product portfolio of our own licensed toys, we intend to apply for additional license rights as well as make use of our available license rights in various ACG characters featuring in popular animations' and comics' series.

Based on our past experience, our Directors estimate that the total development cost (mainly including mould cost, production cost and license fees) for each product type of our own licensed figures would be approximately HK\$2.0 million, depending on the complexity of the product design and production quantity.

As compared to ODM toys, the working capital requirements in relation to our own licensed toys are higher because we would have to bear the initial development costs, whereas for we do not have to incur any license fees for the development of ODM toys.

Our Directors consider that it is in the best interest of our Group to develop additional lines of our own licensed toys, even though it would involve a higher amount of development cost, due to the following reasons:

- (i) developing our own licensed toys allows us to secure a stable source of licensed toys for our distribution platform, instead of solely relying on sourcing imported toys from overseas toy licensees. This enables us to diversify our product portfolio available for sale;
- (ii) according to the F&S Report, in recent years, leading ODM service suppliers in Hong Kong have stepped into the phase of brand development as they set up their own brands for the sales of ACG figure toys, and an increasing number of ODM service suppliers are expected to follow such pattern for their future development. As such, our Directors believe that our emphasis in increasing the sales of our own licensed toys is in line with the general industry practice and would enable us to maintain our competitive strengths in the industry;
- (iii) our profits from sales of own licensed toys have experienced significant growth from the year ended 31 March 2016 to the year ended 31 March 2017. Our gross profit derived from sales of own licensed toys increased from approximately HK\$6.6 million for the year ended 31 March 2016 to approximately HK\$11.4 million for the year ended 31 March 2017, representing an increase of approximately 72.7%. Unless there are unforeseen circumstances, our Directors expect that our additional lines of new own licensed toys will continue to contribute profit to us in the future; and

BUSINESS

- (iv) during the Track Record Period, our gross profit margin in respect of sales of own licensed toys is higher compared to that in respect of sales of ODM toys. In order to maintain our profitability, our Directors believe that it is in our best interest to introduce additional lines of new own licensed toys in the future.

Going forward, our Directors intend to further expand our own licensed product portfolio by launching approximately 34 additional types of figures and approximately five additional series of mini-toys and miscellaneous items (such as pens and puzzle products) from the Latest Practicable Date up to 31 March 2020 in order to cope with our business development, details of which are set out as follows:

Period	Products to be launched	Brand	Licensor
From the Latest Practicable Date to 30 September 2018	1 additional type of figures	“SENTINEL/ 千值練” brand	Licensor A
	1 additional series of mini-toys and miscellaneous items in a new line of series	“TOPI” brand	Licensor B
	2 additional types of figures in a new line of series	“FLAME TOYS” brand	Licensor A
From 1 October 2018 to 31 March 2019	1 additional type of figures	“FLAME TOYS” brand	Licensor C
	1 additional type of figures	“TOPI” brand	Licensor A
	3 additional series of mini-toys and miscellaneous items	“TOPI” brand	Licensor A ^(Note)
	1 additional type of figures in a new line of series	“FLAME TOYS” brand	Licensor A

BUSINESS

Period	Products to be launched	Brand	Licensor
	5 additional types of figures	"FLAME TOYS" brand	Licensor A ^(Note)
	1 additional type of figures in a new mini-toys line of series	"FLAME TOYS" brand	Licensor C
	1 additional types of figures	"FLAME TOYS" brand	Licensor C
From 1 April 2019 to 30 September 2019	2 additional types of polygon figures (多邊形公仔)	"SENTINEL/千值練" brand	Licensor A ^(Note)
	1 additional series of mini-toys and miscellaneous items	"TOPI" brand	Licensor A ^(Note)
	3 additional types of figures	"FLAME TOYS" brand	Licensor C
From 1 October 2019 to 31 March 2020	1 additional type of polygon figures (多邊形公仔)	"SENTINEL/千值練" brand	Licensor A ^(Note)
	6 additional types of figures	"TOPI" brand	Licensor A ^(Note)
	1 additional type of figures	"FLAME TOYS" brand	Licensor A ^(Note)
	3 additional types of figures	"FLAME TOYS" brand	Licensor C

Note: Subject to the renewal of the relevant license agreement.

Enhancing our overseas distribution network

To achieve better coordination of our overseas distributors, we currently intend to establish three overseas representative offices in our sales territories including the US, Taiwan and Singapore. To this end, our Group has established the subsidiary Sentinel US. Our Directors consider that the popularity of ACG figures toys is higher in the US, Singapore and Taiwan comparing with that of the PRC, and therefore it is beneficial and prudent to our Group to expand into the ACG toys market in these three geographical regions following the Listing. According to the F&S Report, currently the ACG market in the PRC was at the early stage of development phase, and ACG culture has higher popularity in developed countries and regions such as the US, Singapore and Taiwan due to strong consumption power per capita. In 2017, the per capita spending on ACG figures toys was approximately US\$6.1, US\$3.5 and US\$1.6 in the US, Singapore and Taiwan, respectively. Meanwhile, per capita spending on ACG figures toys was approximately US\$0.5 approximately in the PRC in 2017. As at the Latest Practicable Date, our Directors have commenced preliminary preparatory works in relation to the establishment of representative office in the US. No subsidiary or branch has been established in Taiwan and Singapore as at the Latest Practicable Date.

Our overseas representative offices are expected to perform the following functions: (i) enhancing our promotion and sales efforts in those overseas territories, including organizing marketing events and participating in trade fairs and toy shows; (ii) actively approaching and liaising with potential distributors in those territories for future cooperation; (iii) closely monitoring the sales performance of our distributors in those territories; (iv) facilitating our sales by hiring local staff in those territories to minimise time lags in processing overseas purchase orders and delivery; and (v) providing after sales services to end-consumers in those territories.

In particular, during the Track Record Period, we participated in toy exhibitions and trade fairs in Taiwan, Singapore and the United States. As our Group did not have any staff or office in such regions, we had to cooperate with other distributors in these regions in conducting the preparatory works for taking part in the toy exhibitions and trade fairs. For each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, our revenue attributable to sales at toy exhibitions and trade fairs was approximately HK\$3.3 million, HK\$6.7 million and HK\$4.8 million respectively. Our Directors consider that, with the establishment of our overseas representative offices, our Group could devote more resources in enhancing our presence in such toy exhibitions and trade fairs. For instance, with our own overseas staff, our Group could closely supervise the preparation of promotion materials such as booklets and pamphlets, as well as the set up and decoration of our sales points or booths, which, in turn, would allow us to strengthen our presence in the local ACG toys market.

BUSINESS

Our Directors have also considered to establish our overseas representative offices based on the following factors:

(i) Establishment of representative office in the U.S.

According to the F&S Report, the retail value of action figures and accessories in the U.S. market grew from USD1.7 billion in 2013 to USD2.0 billion in 2017, representing a CAGR of 4.1%, and the market's retail value growth from 2017 to 2022 is also forecasted to increase at a CAGR of 3.8%, due to the continual development of the overall ACG industry and the recovery of the U.S. economy. During the Track Record Period, the US market has been one of our major sales territories in terms of total revenue contribution to our Group.

Further, for each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, the revenue derived from distribution of imported toys and sales of own licensed toys to the U.S. market amounted to approximately HK\$2.8 million, HK\$4.3 million and HK\$1.3 million, respectively.

In light of the increase in our sales to these distributors and the growing demand in the U.S. ACG industry, our Directors believe that having our own overseas representative office in the U.S. will enable us to further enhance the corporate profile and brand awareness of our Group.

(ii) Establishment of representative office in Singapore

According to the F&S Report, the overall ACG industry has shown an optimistic prospect in Singapore since 2000 when international leading companies established offices in Singapore, and in line with the growing ACG industry, the ACG figure toy market in Singapore also witnessed a growing trend in recent years, while the retail value of ACG figure market in Singapore increased from SG\$24.3 million in 2013 to SG\$27.4 million in 2017 with a CAGR of 3.1%. The F&S Report also suggests that the continual development of ACG industry would keep on driving the ACG figure toy market in Singapore from 2017 to 2022, and the market is expected to grow to SG\$31.5 million (equivalent to approximately HK\$184.7 million) in 2022 at a CAGR of approximately 2.8%.

Our Directors also realised the potential demand for ACG figures in Singapore, and, in 2014, our Group has successfully sourced a new ODM customer, namely Customer G, in Singapore. In light of the demand for ODM service and the growing demand in the ACG figure toy market in Singapore, our Directors believe that having our own overseas representative office in the Singapore will enable us to further enhance the corporate profile and brand awareness of our Group and attract more potential ODM customers and distributors.

(iii) Establishment of representative office in Taiwan

According to the F&S Report, the Japanese ACG culture has been highly popular and influential in Taiwan since 1980s. Influenced by Japanese ACG culture for over 30 years, ACG related industries (including ACG figure toy industry) are relatively mature in Taiwan. According to F&S Report, the retail value of ACG figures in Taiwan grew from NT\$1,041.0 million in 2013 to NT\$1,128.4 million in 2017, representing a CAGR of approximately 2.0%, and the market is expected to maintain a mild growth from 2017 to 2022, reaching NT\$1,237.8 million (equivalent to approximately HK\$305.5 million) in 2022 based on a CAGR of 1.9%.

For each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, we have five Taiwan-based distributors, with three of which our Group has more than three years of business relationship. For the year ended 31 March 2016, the revenue derived from distribution of imported toys and sales of own licensed toys to Taiwan-based distributors amounted to approximately HK\$7.0 million, representing approximately 18.5% of our total revenue derived from distribution of imported toys and sales of own licensed toys for the same period.

In light of the established relationship with our Taiwanese distributors, the growing demand in the ACG figure toy industry in Taiwan, and the sales generated from distribution to Taiwan market, our Directors believe that having our own overseas representative office in the Taiwan is complementary to our efforts in growing the sales of our imported toys and own licensed toys in overseas markets.

Further strengthening our manpower

We consider that a team of skilled workers equipped with appropriate knowledge and experience in relation to toy design and development is crucial to our continuing success. Therefore, we intend to expand our in-house capacity for product development by recruiting two additional engineering staff and two additional product designers for the year ending 31 March 2019. Further, in order to cope with our business development and planned expansion in the product portfolio of our own licensed toys as mentioned above, we plan to hire two additional marketing staff and two additional finance and administrative staff for the year ending 31 March 2019.

Further enhancing our information technology system

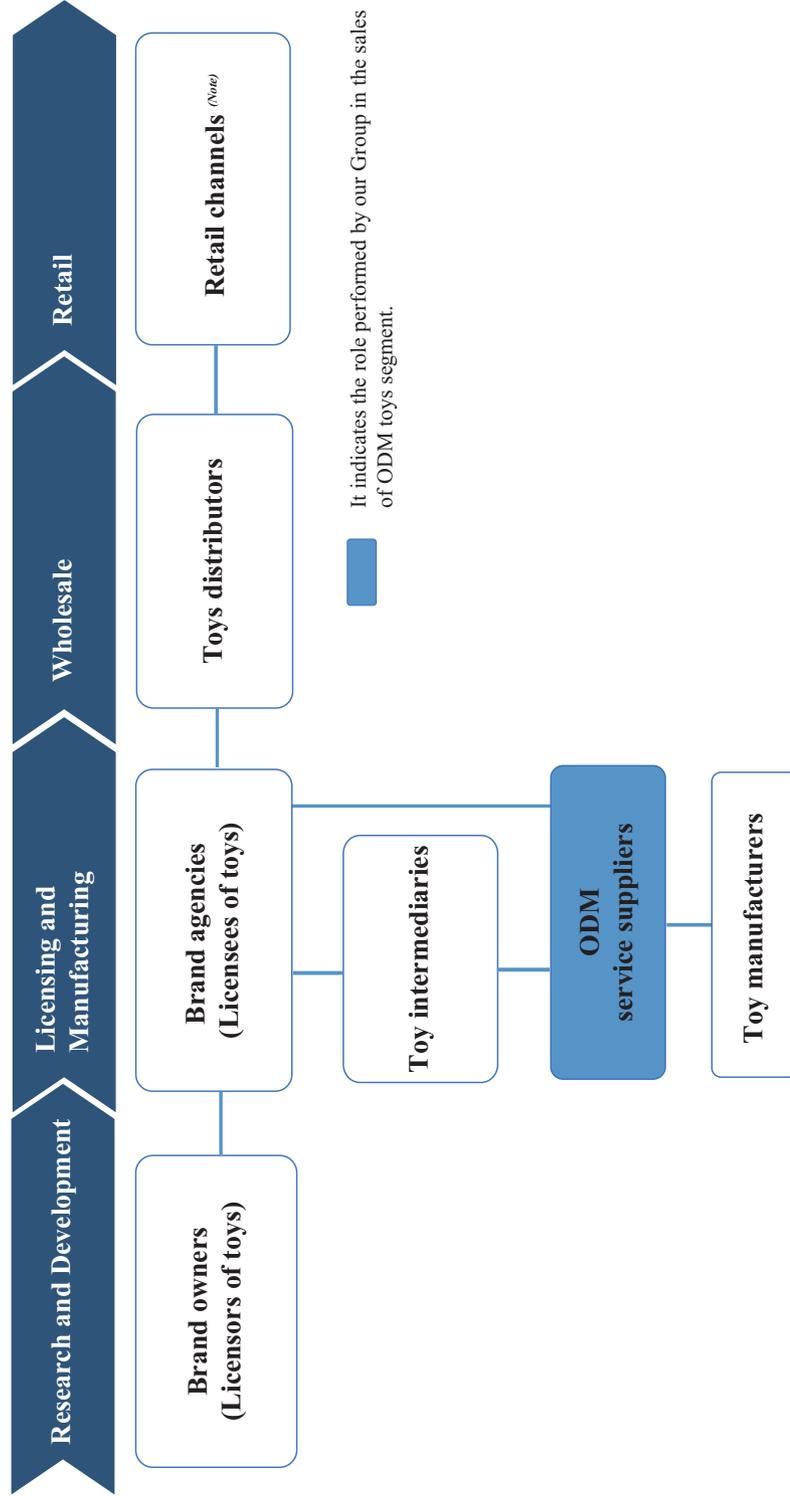
In addition to our human resources, our capacity to design and develop sophisticated toys also depends on the performance of our information technology system. Our Directors believe that continued investment in information technology system is necessary in order to increase our design capacity as we generally carry out the product design works with specialized software. Therefore, we intend to (i) upgrade the existing computer hardware and software of our Group to enhance its three-dimension graphic design function; and (ii) install a new enterprise resource planning (“ERP”) system which is expected to improve our management efficiency and minimise the occurrence of human errors in data processing. Our Directors believe that the aforesaid software and hardware upgrade and installation of a new ERP system will enable us to cope with our business development and increase our overall efficiency and capacity in product design and development.

For further details on the implementation of the above-mentioned business strategies, please refer to the section headed “Future plans and use of proceeds” in this prospectus.

BUSINESS MODEL

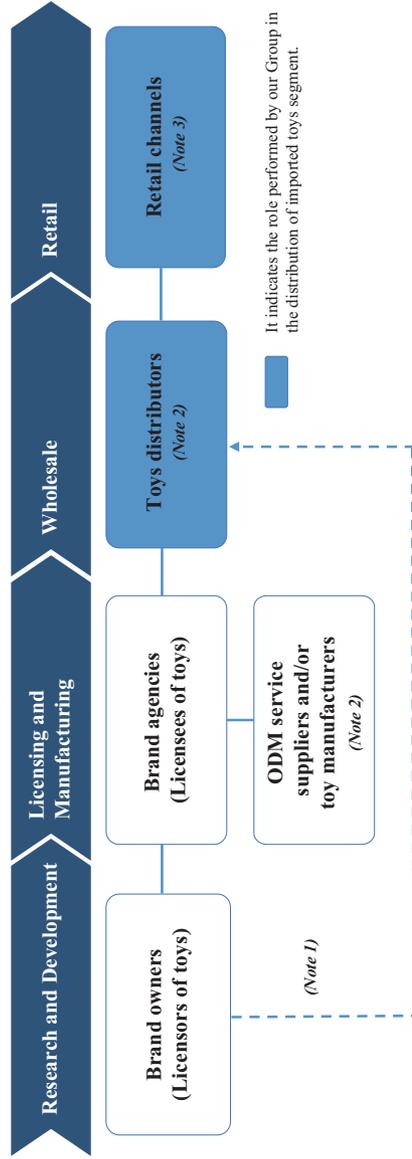
The following diagrams illustrate our current business model:

I. Sale of ODM toys



Note: These include both physical retail stores and online stores.

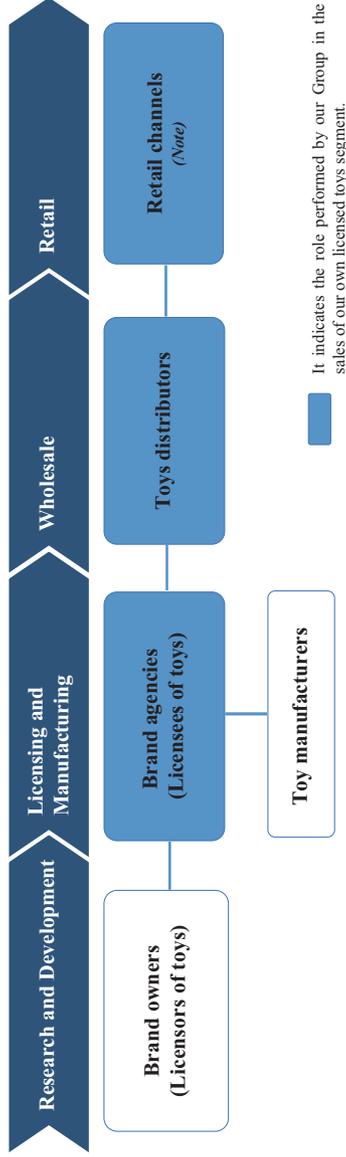
II. Distribution of imported toys



Notes:

1. In some cases, if so required by the licensee of toys, we would obtain license rights in respect of certain additional territories in which we intended to distribute the relevant imported toys. For further details, please refer to the paragraph headed “Description of business operations — II. Distribution of imported toys — Our license agreements for imported toys” below in this section.
2. During the Track Record Period, D4 Toys, our operating subsidiary which carried out toy distribution, had on occasions purchased imported toys from our ODM customers (i.e. licensees of toys), in which case the toys purchased by D4 Toys were the toys that had been previously sold by Sentinel Hong Kong to the same toy licensees on ODM basis. For further details, please refer to the paragraph headed “Customers — Customers who were also our suppliers” below in this section.
3. These include both physical retail stores and online stores.

III. Sale of own licensed toys



Note: These include both physical retail stores and online stores.

OUR PRODUCT CATEGORY

Our product portfolio during the Track Record Period mainly included (i) a variety of premium and general class figures based popular third party owned ACG characters featuring in animations' and comics' series; and (ii) other related products such as pens and hair ties. Our figure toys, primarily targeted at adult consumers, could generally pose in various positions and gestures with moveable joints and accessories.

Typically, we classify both our ODM toys and imported toys into two main categories, namely (i) premium toys; and (ii) general class toys. Our premium toys principally consist of ACG figures with articular designs and large number of movable joints and components, and therefore they normally command a relatively higher market selling price. Our Directors consider that our premium toys are targeted at high-end consumers and collectors of toys under renowned toy brands. We have sold 31 and 27 series of toys to our customers in each of the two years ended 31 March 2017, respectively.

Our general class toys generally comprise (i) ACG figures with limited number of moveable joints and components; and (ii) other related miscellaneous products as such pens and hair ties. Our Directors consider that our general class toys are targeted at mass market consumers, and therefore they normally command a more affordable market selling price.

During the Track Record Period and up to the Latest Practicable Date, our Group has introduced own licensed toys under the brands of "SENTINEL/千值練", "TOPI" and "FLAME TOYS". Our "SENTINEL/千值練" brand superhero figures are targeted at high-end consumers and fans of superhero-themed movies and related items. Our "SENTINEL/千值練" brand polygon figures (多邊形公仔) and "TOPI" mini-toy and figure series are targeted at mass market consumers. Our "FLAME TOYS" brand figures are targeted at high-end

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consumers and fans of a robot-themed comic series. Please refer to the paragraph headed “Description of business operations — III. Sale of own licensed toys — The brands of our own licensed toys” in this section for further details about our branding strategy.

Going forward, our development strategy for our own licensed toys is to regularly introduce new series of ACG figures based on our available licenses, while expanding our end-consumer base by launching from time to time additional mini-toys and other miscellaneous items (such as pens, puzzle products and key rings).

The table below sets forth a breakdown of the revenue, sales volume and average selling price of our products during the Track Record Period by product category:

Product category	2016				2017				2016 (unaudited)				2017			
	For the year ended 31 March		For the nine months ended 31 December		For the year ended 31 March		For the nine months ended 31 December		For the year ended 31 March		For the nine months ended 31 December		For the year ended 31 March		For the nine months ended 31 December	
	Revenue HK\$'000	%	Sales volume Unit	Average selling price HK\$												
Sales of ODM toys																
Premium ODM toys ^(Note 1)	11,276	9.2	54,737	206.0	8,432	6.2	26,213	321.7	4,796	4.5	10,622	451.5	4,344	4.6	10,839	400.8
General class ODM toys ^(Note 2)	53,105	43.1	1,172,751	45.3	55,222	40.3	1,342,452	41.1	44,973	42.2	1,187,869	37.9	40,728	43.4	1,240,475	32.8
Moulds for ODM toys	21,144	17.2	60	352,396.1	20,234	14.8	69	293,244.1	15,749	14.8	54	291,657.3	16,210	17.2	59	274,739.1
Distribution of imported toys																
Premium imported toys ^(Note 3)	15,720	12.8	14,187	1,108.1	14,563	10.6	10,728	1,357.4	13,949	13.1	12,006	1,161.9	9,934	10.6	6,869	1,446.2
General class imported toys ^(Note 4)	6,955	5.6	29,453	236.1	13,017	9.5	74,142	175.6	9,949	9.3	54,956	181.0	6,326	6.7	26,465	239.0
Sales of own licensed toys																
“SENTINEL/千值樂” brand toys ^(Note 5)	12,649	10.3	14,490	872.9	19,645	14.4	25,460	771.6	12,734	12.0	17,072	745.9	9,231	9.8	12,762	723.4
– “SENTINEL/千值樂” brand superhero figures	12,649	10.3	14,490	872.9	18,432	13.5	17,343	1,062.8	11,811	11.1	10,812	1,092.4	8,382	8.9	7,963	1,052.7
– “SENTINEL/千值樂” brand polygon figures	Nil	Nil	Nil	Nil	1,213	0.9	8,117	149.5	923	0.9	6,260	147.4	849	0.9	4,799	177.0
“TOPI” brand toys ^(Note 6)	2,305	1.8	82,098	28.1	5,775	4.2	173,504	33.3	4,388	4.1	125,494	35.0	4,104	4.4	65,109	63.0
“FLAME TOYS” brand toys ^(Note 7)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	3,125	3.3	1,843	1,695.4
Total	123,154	100.0	1,367,776		136,888	100.0	1,652,568		106,538	100.0	1,408,073		94,002	100.0	1,364,421	

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Notes:

1. Premium ODM toys include products with retail selling price suggested by our ODM customers above HK\$1,000.
2. General class ODM toys include products with retail selling price suggested by our ODM customers at or below HK\$1,000.
3. Premium imported toys include products with our retail selling price above HK\$1,000.
4. General class imported toys include products with our retail selling at or below HK\$1,000.
5. "SENTINEL/千值練" brand toys include (i) figures series based on a ACG character featuring in a classic superhero comic series of Licensor A; and (ii) a polygon figures (多邊形公仔) series based on a range of classic animation characters of Licensor A.
6. "TOPI" brand toys include (i) a mini-toys and figures series based on a range of classic animation characters of Licensor A; and (ii) other products (such as pens and toy cars) based on a range of ACG characters featuring in an animated television series and a superhero-themed comic book series of Licensor B.
7. "FLAME TOYS" brand toys include a figure based on a ACG character featuring in a robot-themed comic series of Licensor C.

Major trends in the sales and prices of our products

Sales of ODM toys

The sales volume of our premium ODM toys decreased from 54,737 units in the year ended 31 March 2016 to 26,213 units in the year ended 31 March 2017, representing a decrease of 52.1%, while the sales volume of our general class ODM toys increased from 1,172,751 units in the year ended 31 March 2016 to 1,342,452 units, representing an increase of 14.5%. The increase in sales proportion of our general class ODM toys was mainly because we received higher volume of purchase orders from Customer Group A for products with less sophisticated designs or limited number of moveable joints and components (such as human-form figures).

The decrease in the sales volume of our premium ODM toys was mainly because the product portfolio of Customer Group A was more focused on general class ACG figures in the year ended 31 March 2017 based on their license rights on hands during the relevant period. Accordingly, we received less purchase orders from Customer Group A for premium ODM toys in the year ended 31 March 2017.

The average selling price of our moulds for ODM toys decreased from approximately HK\$352,000 in the year ended 31 March 2016 to HK\$293,000 in the year ended 31 March 2017, representing a decrease of approximately 16.8%. In general, our moulds for premium ODM toys generally command a higher selling price as compared to that for general class ODM toys because the design and development process of moulds for premium ODM toys typically involves longer time period and requires more design and quality control efforts. Our Directors consider that as we design and produce less premium ODM toys in the year ended 31 March 2017, the average selling price of our moulds for ODM toys has decreased in the same period accordingly.

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Our revenue generated from sales of premium ODM toys decreased from approximately HK\$4.8 million for the nine months ended 31 December 2016 to approximately HK\$4.3 million for the nine months ended 31 December 2017, representing a decrease of approximately 9.4%, mainly because we received purchase orders from Sentinel Japan for two series of figures of premium ODM toys with relatively lower selling price and higher quantity in the nine months ended 31 December 2017. Our revenue generated from sales of general class ODM toys decreased from approximately HK\$45.0 million for the nine months ended 31 December 2016 to HK\$40.7 million for the nine months ended 31 December 2017, representing a decrease of approximately 9.4%, mainly because relatively higher volume of purchase orders of general class ODM toys was received from Customer Group A for products with lower average selling price which require less sophisticated designs or limited number of moveable joints and components.

Distribution of imported toys

The sales volume of our premium imported toys decreased from 14,187 units in the year ended 31 March 2016 to 10,728 units in the year ended 31 March 2017, representing a decrease of approximately 24.4%, while the sales volume of our general class imported toys increased from 29,453 units in the year ended 31 March 2016 to 74,142 units in the year ended 31 March 2017, representing an increase of approximately 151.7%. The increase in sales proportion of our general class imported toys was mainly attributable to our strategy in expanding our end-consumer base by sourcing more mass-market toys from Sentinel Japan and Supplier G in the year ended 31 March 2017. In the year ended 31 March 2017, we have increased our purchase of mass-market toys from Sentinel Japan, and have started to further diversify our supplier base by purchasing general class imported toys from a new supplier, namely Supplier G. Such mass-market toys include figures with less sophisticated designs, hair ties, tumblers and rubber magnets, and are targeted at general end-consumers. Our Directors believe that this contributed to higher sales volume of our general imported toys in the year ended 31 March 2017.

The decrease in the sales volume of our premium imported toys in the year ended 31 March 2017 was largely due to our strategy in adjusting the composition of our product portfolio. In the year ended 31 March 2017, our Directors noticed that toy licensees in Japan (including but not limited to Customer Group A) were more focused on developing licensed figures which were targeted as mass-market consumers and command a relatively lower selling prices. As the consumers' preference in the Hong Kong and other overseas ACG toys market (including the PRC and Taiwan) has often been influenced by the Japanese ACG market, our Director considered that general class licensed toys would be relatively more popular in the year ended 31 March 2017. Therefore, our Group had decided to fine tune our procurement policy and procured lesser premium imported toys for resale in the same period.

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Our revenue generated from distribution of premium imported toys decreased from approximately HK\$13.9 million for the nine months ended 31 December 2016 to approximately HK\$9.9 million for the nine months ended 31 December 2017, representing a decrease of approximately 28.8%, mainly due to the decrease in sales of two series of premium imported toys sourced from Sentinel Japan by approximately HK\$1.8 million and HK\$0.4 million, respectively, in the nine months ended 31 December 2017, as compared to the nine months ended 31 December 2016. Our revenue generated from distribution of general class imported toys decreased from approximately HK\$9.9 million for the nine months ended 31 December 2016 to approximately HK\$6.3 million for the nine months ended 31 December 2017, representing a decrease of approximately 36.4%, mainly due to the decrease in sales of two general ACG figure series sourced from Sentinel Japan and Customer Group B by approximately HK\$0.6 million and HK\$1.8 million, respectively, in the nine months ended 31 December 2017, as compared to the nine months ended 31 December 2016.

Sales of own licensed toys

The sales volume of our “SENTINEL/千值練” brand superhero figures increased from 14,490 units in the year ended 31 March 2016 to 17,343 units in the year ended 31 March 2017, representing an increase of approximately 19.7%. This was mainly because our Group launched sales of wider range of figures based on a US superhero character of Licensor A in the year ended 31 March 2017 through (i) developing new series of products items; and (ii) relaunching previous popular product series.

As part of our initiatives to enlarge our end-consumer base, our Group launched (i) a mini-toys series under the “TOPI” brand in around February 2016; and (ii) a polygon figures (多邊形公仔) series under the “SENTINEL/千值練” brand in around April 2016, both of which were targeted at mass market end-consumers.

The sales volume of our “SENTINEL/千值練” brand superhero figures decreased from 10,812 units for the nine months ended 31 December 2016 to 7,963 units for the nine months ended 31 December 2017, representing a decrease of approximately 26.4%.

The sales volume of our polygon figures (多邊形公仔) series decreased from 6,260 units for the nine months ended 31 December 2016 to 4,799 units for the nine months ended 31 December 2017, representing a decrease of approximately 23.3%. The sales volume of our mini-toys and figures series under the “TOPI” brand decreased from 125,494 units for the nine months ended 31 December 2016 to 65,109 units for the nine months ended 31 December 2017, representing a decrease of approximately 48.1%. Such decrease was mainly due to the negotiation between our Group and Licensor A during the nine months ended 31 December 2017 in relation to the renewal of the license agreement on the polygon figures (多邊形公仔) series and mini-toys series prior to the expiry of such agreement in June 2017, and hence we introduced less new series of polygon figures (多邊形公仔) or “TOPI” brand mini-toys in the first six months of 2017. For further details, please refer to the paragraph headed “Description of business operations — III. Sale of own licensed toys — Background of the licensors of our own licensed toys — Licensor A” in this section.

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In December 2017, our Group launched a figure based on an ACG character featuring in a robot-themed comic series of Licensor C under the “*FLAME TOYS*” brand, which is targeted at high-end consumer market, following the launch of a movie sequel worldwide based on such robot-themed comic series in mid-2017. The revenue contributed by the sales of such robot-themed figure amounted to approximately HK\$3.1 million, representing 3.3% of our revenue for the nine months ended 31 December 2017.

DESCRIPTION OF BUSINESS OPERATIONS

I. Sale of ODM toys

Since 2005, we have designed and supplied toys to our customers on ODM basis. Our Directors believe our services enable us to establish strong business relationship with our customers, which would not be easily replaced by the services provided by toy trading companies and toy manufacturers in the PRC, for the following major reasons:

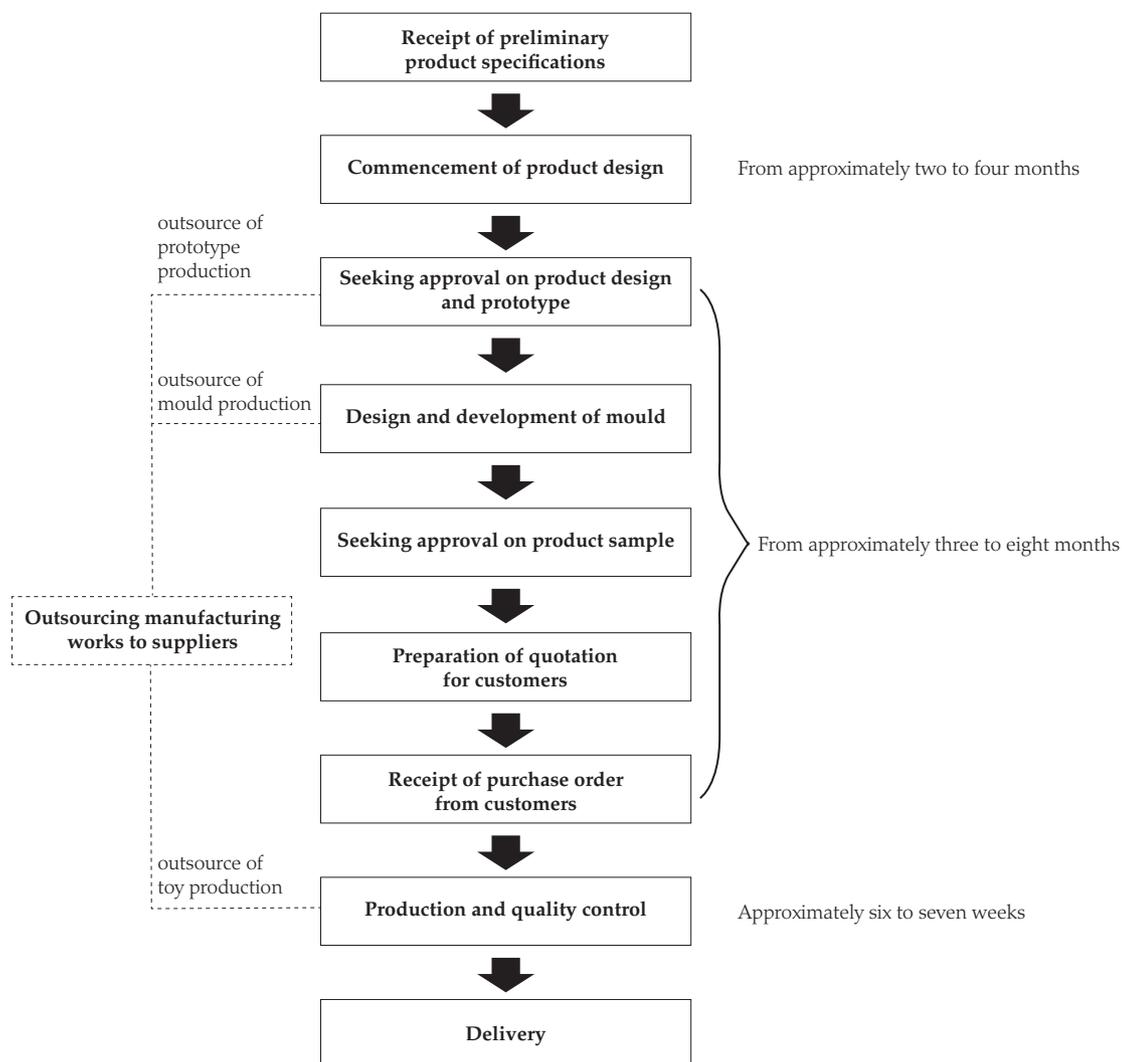
- (i) our in-house design and development team is led by Mr. Li, who has more than 12 years of experience in the ACG toy industry. Mr. Li is familiar with the product development and manufacturing process of ACG toys to provide practical product design advice to our customers. Our major manufacturing suppliers in the PRC confirmed that they do not have any in-house product design and development team;
- (ii) our sales and marketing team, with member who is conversant in Japanese, can ensure direct communication with our customers in Japan and provide services to them more directly and efficiently. Our major manufacturing suppliers in the PRC confirmed that their senior management team does not possess Japanese speaking ability;
- (iii) we have three members in our in-house quality control team who are responsible for supervising the manufacturing process and monitor product qualities by performing checking and testing on the products; and
- (iv) our ODM services generally include preparation of product design, mould design and development, production management for prototype, product sample and final product, and provision of fine-tuning advice on product features. As the preliminary specifications provided to us by customers are generally elementary product ideas or basic descriptions of the expected project features, our in-house and development team would assist our customers in evaluating the feasibility of such ideas and product features. Our Directors believe that our product design and development services are crucial in transforming our customers’ product concepts or ideas into design layout and prototype. Further, our advice on the prototype and choice of raw materials for the final products would facilitate our customers in making more accurate estimation for the potential cost of mass production. Our Directors believe that this kind of one-stop solutions could not be easily replicated by our competitors.

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We have a total number of three, two and three customers of ODM toys for each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, respectively. We mainly focus on the Japanese and the US markets as our ODM customers primarily comprise two customer groups (namely Customer Group A and Customer Group B) based in Japan and the US, respectively. In general, our customers have obtained license rights of the ODM toys from the relevant licensors of brand companies, and engaged us to provide ODM services for the licensed products. Alternatively, in some other cases, our customers were engaged as toy intermediaries by the relevant toy licensees to source toys from ODM service suppliers (such as our Group).

Operation flow

The following diagram summarises the principal steps in relation to the sale of ODM toys *(Note)*:



Note: The production lead time for our ODM toy from the receipt of preliminary product design from customers to delivery varies as it depends on different factors such as, among other things, the complexity of the product design and the quantity ordered by customers.

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Receipt of preliminary product specifications

We secure new businesses mainly through direct invitation from existing customers. For further information, please refer to the paragraph headed “Sales and marketing” in this section.

Our customers generally provide us with preliminary specifications of their products. Such information is presented in the forms of (i) two-dimension drawings of ACG characters; and (ii) product requirements such as size, colour, texture, cuttings, features of the ACG characters, identities of the licensors, and special product functions, if any. Our customers may also inform us the expected production schedule and launch date of the products. Alternatively, in some cases, our customers may deliver us an initial three-dimension prototype for our inspection and review.

Commencement of product design

Upon receipt of preliminary product specifications, our in-house design and development team will review and evaluate the available documents and/or prototypes to assess the scope, technical requirements, complexity of customers’ specifications and feasibility of the product design. We will then decide whether to accept our customers’ invitations. For further details about our in-house design and development team, please refer to the paragraph headed “Research and development” below in this section. In addition, we may also conduct discussion with customers in order to further familiarise ourselves with their needs and requirements.

If we decide to accept our customers’ invitations, we will commence preliminary works for preparing the product design. Our in-house design and development team uses three-dimension drawing software to produce the preliminary design layout. Modification and/or additions are made to the product design manually or through the drawing software based on examination by Mr. Li.

Depending on customers’ specific needs, our product design service generally includes (i) providing recommendations on design of prototypes and the choice of raw materials; (ii) advising on mixture and brightness of colouring in order to produce the desired visual effects; (iii) converting the two-dimension drawings into three-dimension design layout; (iv) decoupling the prototypes into multiple pieces for design of moulds; (v) preparing prototypes based on customers’ specifications and requirements; and (vi) providing technical advice on cutting and polishing. In particular, we suggest various modifications on the shapes, postures and joint positions of a figure to improve its aesthetic and functional values.

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Seeking approval on product design and prototype

After addressing our customers' feedbacks, we will make up a finalised version of the design layout and engage our suppliers to prepare the prototypes as well as a set of relevant parts and components for our customers' approval.

Design and development of mould

Typically, our customers will also require us to design and develop the moulds for the products. The function of the mould is to facilitate mass production of the products by injecting materials (which commonly include plastic and metal) into the cavity of the mould for configuration.

Depending on customers' specific needs, our mould design and development services generally include: (i) advising on the size, shape and layout of the mould; (ii) making recommendations on the choice of raw materials; and (iii) setting out the physical and mechanical criteria for the mould production.

We will submit the finalised design and development plans of the moulds to our suppliers, and seek their quotations on the production cost of the moulds.

Based on quotations from the suppliers, we will prepare our fee quotations for the moulds to our customers. If our quotations for the moulds are accepted, our customers will confirm their acceptance by placing purchasing orders for the moulds with us. As we do not possess our own production facilities, we outsource the manufacturing works of the moulds to our suppliers.

After completion of the moulds, we will carry out physical and mechanical tests on the moulds to ensure their reliability and quality standards. The moulds subsequently are applied by our suppliers in the production process of toy products.

The moulds deployed in the production belong to our customers' properties, and the mould designs are developed by our Group as instructed by our customers and based on concepts or ideas provided by them. Hence, the rights over the mould designs are intellectual properties which belong to our customers. Generally, after the production of moulds, the titles of physical moulds will pass to our customers once they are applied in the manufacturing process of toy products pursuant to our customers' purchase orders. For logistic convenience, the moulds are generally kept in the custody of our suppliers. If our customer indicates that a mould is no longer intended to be used in the future, we will order the suppliers to destroy and dispose of the mould for confidentiality. We require suppliers to provide us with evidence of the disposal which will then be delivered to the customer for its record. Please refer to the paragraph headed "Mould deployed in toy manufacturing" in this section for further details.

In some cases, our customers may engage us to design and manufacture the moulds only. The finished moulds will be delivered by us to the customers for their further use in production.

Seeking approval on product sample

Our suppliers generally submit product samples made from test-run of the moulds to us. Our in-house design and development team will evaluate the quality of the product samples with reference to: (i) fulfilment of our customers' product specifications; and (ii) aesthetic and functional features of the products. If the product samples are accepted by us, we will submit the same to our customers' for their approval. Our customers will inform us their decisions in writing and imprint their signatures on the product sample for identification purpose.

In some cases, D4 Toys, our operating subsidiary which carries out toy distribution, might obtain information of such product from our customer and conduct pre-ordering through our various distribution platforms. Based on the pre-orders received and the expected sales quantity, D4 Toys would in turn place purchase orders with our customer for such product accordingly. For further details, please refer to the paragraph headed "Customers — Customers who were also our suppliers" in this section.

Preparation of quotation for customers

We will seek fee quotations from our suppliers on the production cost of the products.

Based on quotations from the suppliers, we will prepare our fee quotations of the products to our customers, which generally includes the unit price of the products based on different range of quantities. For information of our pricing policies, please refer to the paragraph headed "Pricing strategy" below in this section.

Receipt of purchase order from customers

Our customers engage us by purchase orders on case-by-case basis. The purchase order generally sets out, among other things, shipping method, delivery date, destination, unit price and quantity of the product. For details regarding the terms of engagement, please refer to the paragraph headed "Customers" below in this section.

Production and quality control

We engage our suppliers to perform manufacturing, labelling and packaging of the products. We do not keep any inventory of our ODM toys. Please refer to the paragraph headed "Inventory policy" in this section for further details.

We impose a series of stringent quality control measures that our suppliers are required to follow strictly, including specification for raw materials, sampling product inspection and assigning staff to our suppliers' premises for inspection, etc. For further information about our quality control measures, please refer to the paragraph headed "Quality control" in this section.

We are not required to obtain any approval from our customers in outsourcing the production works to suppliers.

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Delivery

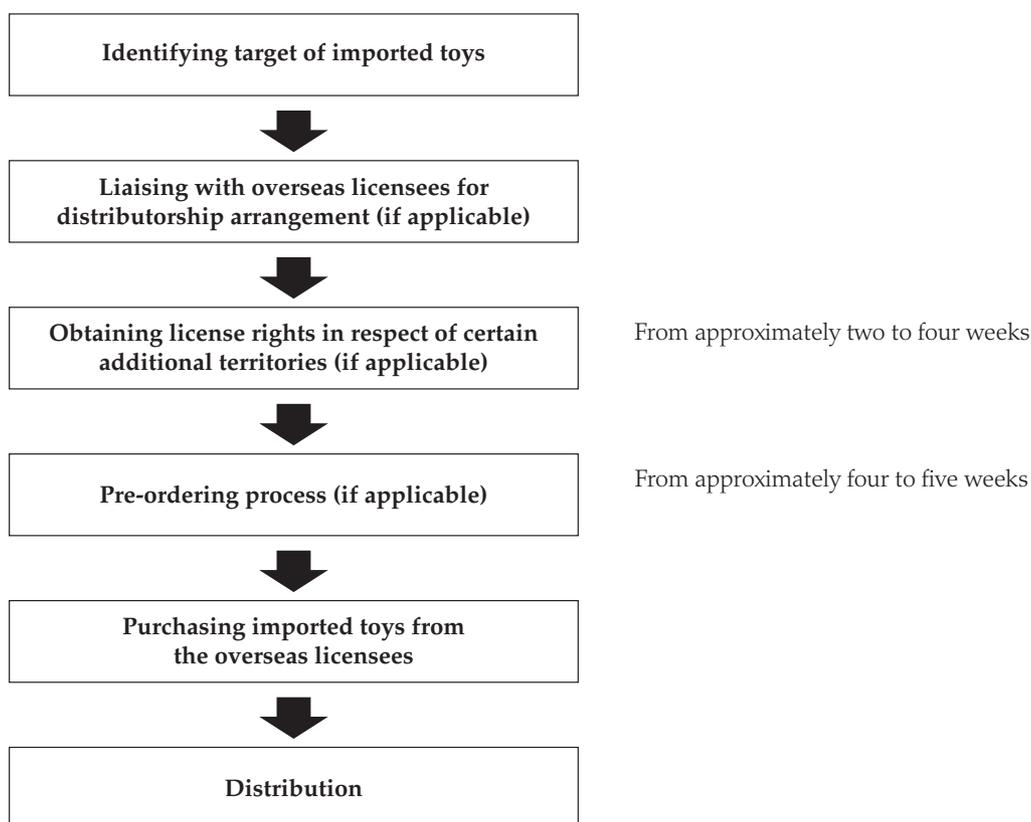
Our suppliers are generally responsible for arranging delivery of the finished products to us in Hong Kong. Subsequently, the products will be shipped to destinations specified by our customers on the basis of free-on-board at Hong Kong.

II. Distribution of imported toys

With a view to enhancing and diversifying our core business, we have started to engage in distribution of imported toys since 2012. During the Track Record Period, we have purchased imported toys from overseas licensees mainly based in Japan and the US. For each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, we purchased imported toys from seven, seven and four overseas toy licensees, respectively.

Operation flow

The following diagram summarises the principal steps in relation to the distribution of imported toys:



Identifying target of imported toys

Our in-house design and development team identifies suitable target of imported toys from overseas licensees and evaluate the market response in our intended territories for distribution. We will generally obtain basic information of the prospective imported toys including the wholesale and retail price recommended by the overseas licensees, product features and the licensors of the relevant imported toys. In some cases, D4 Toys, our operating subsidiary which carries out toy distribution, would purchase imported toys from our ODM customers. For further details, please refer to the paragraph headed “Customer — Customers who were also our suppliers” below in this section.

Liaising with overseas licensees for distributorship arrangement (if applicable)

Based on our selection, we may discuss with licensees of the imported toys on potential distributorship arrangement. For further details, please refer to the paragraph headed “Suppliers — Principal terms of engagement” in this section.

Obtaining license rights in respect of certain additional territories (if applicable)

In some cases, if so required by the licensee of toys, we would obtain license rights in respect of certain additional territories in which we intended to distribute the relevant imported toys.

Pre-ordering process (if applicable)

We may conduct pre-ordering to assess the market response to the imported toys. Please refer to the paragraph headed “Sales and marketing” below in this section for details about our pre-ordering process.

Purchasing imported toys from the overseas licensees

Based on results from the pre-ordering (if applicable) and our estimated market response, we will determine the volume of purchase from the overseas licensee.

Distribution

The overseas licensee will arrange to deliver the imported toys to us on the basis of free-on-board at Hong Kong. In relation to the imported toys which were purchased by D4 Toys from our ODM customers, once our purchase orders are accepted, we will keep the units that we purchased for our own use. Most of the imported toys will be shipped to our overseas distributors on the basis of free-carrier at Hong Kong. We will reserve part of the products for retail customers who have placed orders during the pre-ordering process, and deliver them to these customers upon full payment of the purchase price.

The remaining stock is generally stored at our warehouse and subsequently sold at our various retail and consignment sales channels. Please refer to the paragraph headed “Sales and marketing” below in this section for details.

Our license agreements for imported toys

If so required by the licensee, we may from time to time obtain license rights for our imported toys in respect of certain additional territories in which we intended to distribute the relevant imported toys (referred to as the “**Offshore License Agreement**”). This generally occurred when the license rights held by the Japanese licensee only covered the Japanese region and did not cover other overseas territories in which we intended to distribute the relevant imported toys. Upon the Japanese licensee’s request, we would approach the licensors of the relevant ACG characters in relation to the overseas territories and apply for the Offshore License Agreements to distribute the relevant imported toys in such territories. After obtaining the Offshore License Agreements, we would inform the Japanese licensee and start to purchase the relevant imported toys from them for resale in the overseas territories.

During the Track Record Period, our Group had obtained six Offshore License Agreements for our imported toys, and all of them have expired as at the Latest Practicable Date. Depending on requests from our overseas licensee, our Group may consider to apply for new or renewal of our past Offshore License Agreement in the future.

The principal terms of the Offshore License Agreements during the Track Record Period are summarised as below:

Principal terms	Descriptions
License period	Generally ranging from approximately three to 29 months.
Territory of distribution	Territories mainly including Hong Kong, Macau, Taiwan, the PRC, the US, Singapore and Thailand.
Licensed articles	Mainly figures of the licensed characters.
Description of the licensed ACG characters	Characters from animation and comic series.
Authorised customer and distribution platform	Mainly including retail and wholesale channels.
Rate and payment of license fees	Certain fixed percentages, depending on the territories for sale.
Minimum License fee payment	Certain fixed sum payable upon signing of the license agreements.
On sale date	Generally ranging from one month to 12 months upon signing of the license agreements.
Exclusivity	Non-exclusive.
Advertising and marketing commitment	No commitment.

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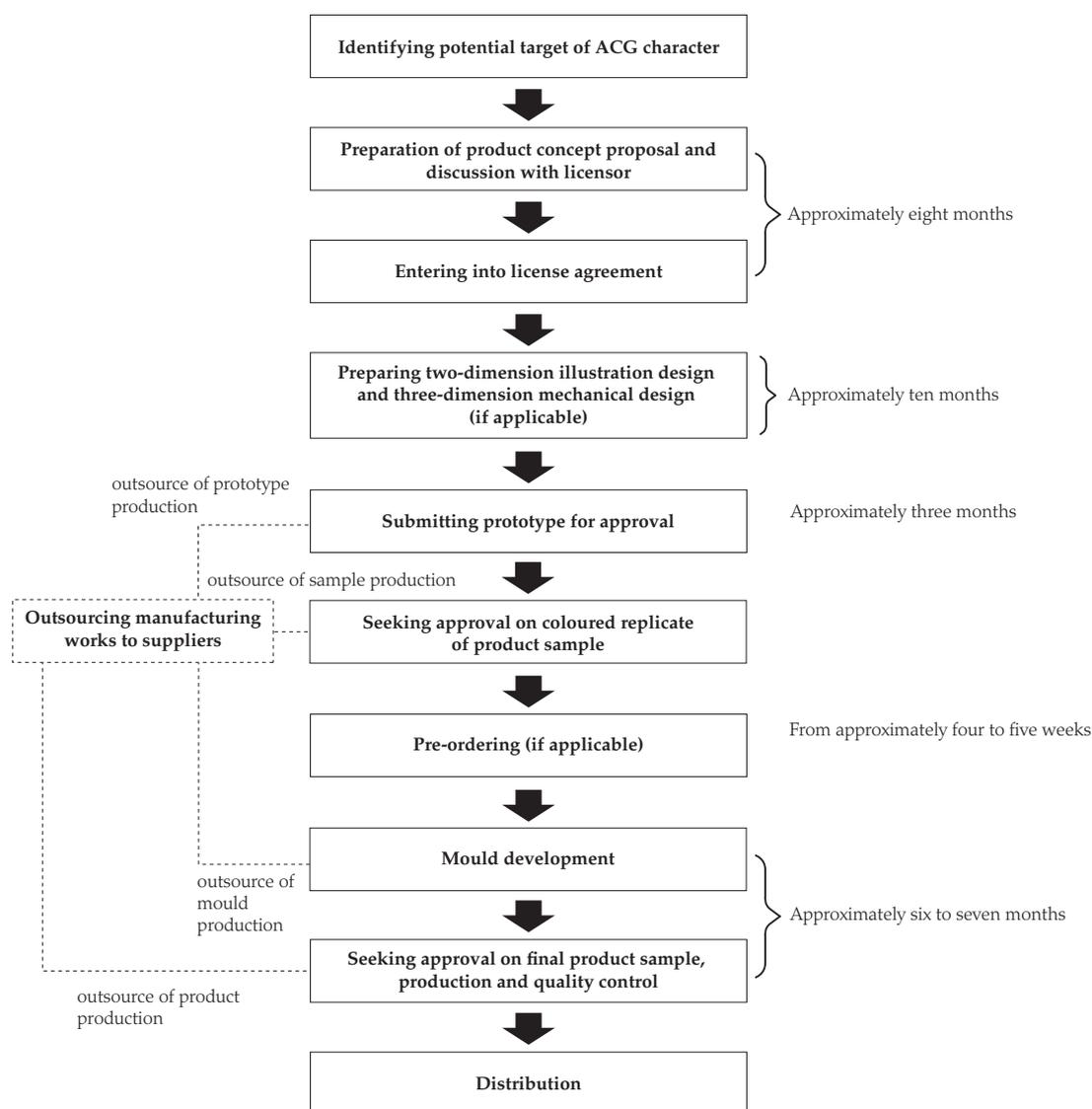
Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, there was no premature termination of our Offshore License Agreements.

III. Sale of own licensed toys

Since 2013, we have started to cooperate with licensors of various renowned US entertainment brand companies and developed our own licensed toys based on ACG characters featuring in different animations' and comics' series.

Operation flow

The following diagram summarises the principal steps in relation to the sales of own licensed toys ^(Note):



Note: The production lead time for our products from liaising with the licensor for license agreement to distribution varies as it depends on different factors such as, among other things, the complexity of the product design and production volume.

Identifying potential target of ACG character

Our in-house design and development team conducts regular meetings to identify potential target of ACG character based on, among other things, the character's popularity, the likelihood to obtain their license rights, and the complexity in transforming the concept related to the characters into product design.

Preparation of product concept proposal and discussion with licensor

Once we select suitable ACG character, we will proceed to prepare a product concept proposal which typically includes: (i) preliminary drawings and layout of the toy; (ii) size and materials of toy product; (iii) special features or functions; (iv) related accessory parts; (v) product packaging; (vi) estimated sales quantity; (vii) territories and launch date for sale; and (viii) proposed retail price and target customers. We will also include the proposed marketing plan and the profile of our Group in the proposal.

We will then submit the proposal to the licensor and arrange for meetings with its representative to discuss the terms of license rights. We will revise the product concept based on feedbacks from the licensor.

Entering into license agreement

After the key terms are finalised, the licensor will enter into a license agreement with us, which generally sets out, among other things, (i) duration of license rights, (ii) territories for distribution, (iii) product category and description, (iv) authorised distribution platforms, (v) license fee, and (vi) product launch date, etc.

Preparing two-dimension illustration design and three-dimension mechanical engineering design (if applicable)

After signing of the license agreement, we will begin to prepare a detailed two-dimension illustration design for the products based on our available drawings and layouts. Such illustration design enables us to have a preliminary assessment of the attractiveness of the product model to end-consumers.

In the case of figures which involved sophisticated designs and/or large number of joints and components, we may prepare a three-dimension mechanical engineering design as part of our design and production planning. With the aid of professional computer drawing software, we convert the two-dimension illustration design into a three-dimension mechanical engineering design. This conversion process enables us to evaluate the features and visual effects of the product, mainly including movability of the joints and the linkage among the parts, components and accessories of the figure. We may also use the drawing software to generate the layout plan of the parts and components required for producing the product to facilitate our mould development at later stage.

Submitting prototype for approval

After completing the design of the product, we will engage our suppliers to prepare a set of product prototype for licensor's approval. Once approval is granted, the licensor will inform us its decision through its online system.

Seeking approval on coloured replicate of product sample

Based on the approved prototype, we will engage our suppliers to prepare a coloured replicate of the product sample for the licensor's approval. During this process, we normally make various modifications on the shapes, postures and joint positions of the product to improve its aesthetic and functional values.

Pre-ordering (if applicable)

We may conduct a pre-ordering to assess the market response to our own licensed product. Please refer to the paragraph headed "Sales and marketing" below in this section for further details.

Mould development

In order to enable mass production of our licensed toys, we design and develop the moulds of such toys by (i) planning for the size, shape and layout of the moulds; (ii) deciding on the choice of raw materials; and (iii) setting out the physical and mechanical criteria for the mould production. We then submit the finalised design and development plans of the moulds to our suppliers, and seek their quotations on the production cost of the moulds. If the quotations for the moulds are accepted by us, we will confirm our acceptance by placing purchasing orders for the moulds.

After completion of the mould production, we will carry out physical and mechanical tests on the moulds to ensure their reliability and quality standards. The moulds will subsequently be applied by our supplier in the production process of toy products. For further details, please refer to the paragraph headed "Mould deployed in toy manufacturing" below in this section.

Seeking approval on final product sample, production and quality control

Based on results of the pre-ordering process, we will determine the production volume of the products. Before commencement of mass production, we will also submit our final product sample, together with the packaging design, for the licensor's approval. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any material difficulties in obtaining our licensor's approval on our final product sample and packaging design. Once approval is granted by the licensor, we will outsource the manufacturing, labelling and packaging of the products to our supplier and adopt various quality control measures for the products. Please refer to the paragraph headed "Quality Control" in this section for details.

Distribution

We formally sell the products through various distribution platforms in territories permitted under the license agreement. Most of the products will be shipped to our overseas wholesale distributors on the basis of free-carrier or free-on-board at Hong Kong shortly after they are delivered to us by our suppliers. We will reserve part of the products for retail customers who have placed orders during the pre-ordering process, and deliver them to these customers upon full payment of the purchase price.

The remaining stock is generally stored at our warehouse and subsequently sold at our various retail and consignment sales channels. Please refer to the paragraph headed “Sales and marketing” below in this section for details.

Background of the licensors of our own licensed toys

Licensor A

Licensor A is the licensor of a renowned US entertainment brand company which has multinational operations in the fields of animation and film studio, theme parks, theater, publishing and online media. It is part of a media group which is listed in the New York Stock Exchange.

During the Track Record Period, we have sold a series of “SENTINEL/千值練” brand own licensed figures based on a US superhero ACG character featuring in a classic superhero comic series of Licensor A, which contributed approximately 10.3%, 13.5% and 8.9% of our revenue for each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, respectively.

The first license term of our figures series based on the US superhero character expired in 31 December 2016. We subsequently entered into another license agreement with Licensor A which granted us the license rights to develop and sell figures series based on ACG characters featuring in a classic superhero comic series (including the aforesaid US superhero character and over 100 other characters) for a term commencing from 1 January 2017 to 31 December 2018. Our new figures series based on the renewed license agreement with Licensor A was launched for sales in October 2017. We have expressed our intent for renewal and target to commence our negotiation with Licensor A for the renewal of the license agreement in September 2018.

Our Group had also obtained from Licensor A the license right to develop mini-toys based on ACG characters featuring in various animation series for the first license term commencing from 1 June 2015 to 30 June 2017. This mini-toys series contributed approximately 1.8% and 4.2% of our revenue for each of the two years ended 31 March 2017, respectively. We subsequently renewed the license rights of the mini-toys series for a term commencing from 1 July 2017 to 30 June 2018.

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Our Directors consider that we would be able to renew the aforesaid two existing license agreements with Licensor A upon their respective expiry dates since (i) we have successfully renewed these two license agreements in January and July 2017 respectively, and our previous experience in renewing such license agreements would facilitate us in our upcoming discussion for the renewal of our license agreements in the future; and (ii) we believe that our sales to the Hong Kong theme park operated by an affiliate of Licensor A during the Track Record Period is also a positive indicator of their group's satisfaction with our own licensed products developed under our license rights granted by Licensor A, which in turn could enhance our prospect of renewing such license agreements in the future.

Licensor B

Licensor B is the licensor of a renowned US entertainment brand company which has operations in the fields of film studio and distribution. According to information publicly available, its revenue for the financial year ended 2015 is over US\$12 billion. It is part of a media and entertainment group which is listed in the New York Stock Exchange.

Our Group had obtained from Licensor B the license rights to develop figures series and other products such as pens, toy cars and key rings based on ACG characters featuring in (i) an animated television series; and (ii) a superhero-themed comic book series for a term commencing from 1 July 2016 to 30 September 2018. We have expressed our intent for renewal and target to commence our negotiation with Licensor B for the renewal of the license agreement in June 2018. These figures series and other products was launched for sales in August 2017.

Licensor C

Licensor C is the licensor of a renowned US toy brand company which is one of the largest global toy makers and has operations in the fields from toys and games to television, motives, and digital gaming and consumer products. It is part of a toy group which is listed in the New York Stock Exchange.

Our Group had obtained from Licensor C the license rights to develop figures series based on ACG characters featuring in a robot-themed comic series for a term commencing from 1 November 2016 to 31 December 2019. A "FLAME TOYS" brand figure based on such comic series was launched for sales in December 2017 and contributed revenue of approximately HK\$3.1 million, representing approximately 3.3% of our revenue for the nine months ended 31 December 2017.

Our licensing strategy

We believe that leveraging on the popularity of licensed ACG characters would boost consumers' demands for our toys and increase the public awareness of our brands. Our Group analyses from time to time past sales data with our own licensed toys and collects sales feedback from our retail customers and distributors, and if appropriate, introduces new or limited editions of toys to fully make use of our available license rights within their relevant terms. Going forward, our strategy is to: (i) seek business opportunities to cooperate with our existing and new potential licensors; and (ii) fully utilise our existing license rights for product development.

Typically, we discuss with the licensor on our intent to renew the license rights approximately six months prior to the expiry of license term and enter into negotiation with the licensor on the license fees and other key terms for the renewal approximately three months later. As discussed in the paragraph headed "Risk Factors — Failure to renew existing license rights and/or obtain new license rights for our own licensed toys will have adverse impact on financial performance on our Group", there is no assurance that we will be able to successfully renew the term of our own licensed toys.

Nevertheless, our Directors consider that the risk of non-renewal for the license rights of our own licensed toys is not particularly high. Sentinel Hong Kong had successfully obtained from Licensor A the license rights to develop figures series based on over 100 ACG characters featuring in a classic superhero comic series, upon expiry of the first term of license agreement in relation to a US superhero ACG character. Sentinel Hong Kong had not experienced any impediments or difficulties in applying for such new license rights from Licensor A. Hence, assuming the conditions and requirements for renewing the license rights in the ACG characters of Licensor A remain substantially the same, our Directors believe that Sentinel Hong Kong will be eligible for renewing or extending our existing license rights again in the future.

During the Track Record Period, we have started to obtain license rights in various ACG characters for product development from Licensor B and Licensor C, in addition to Licensor A. As such, in case of non-renewal of any of our license agreement upon expiry of the current term, our Group can continue to develop new own licensed toys based on our other subsisting license agreements.

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License terms of our own licensed toys

The license agreements of our own licensed toys are product-based which allow us to make use of certain ACG character in a specific product category. The principal terms of our current license agreements are summarised as below:

	Licensor A	Licensor A	Licensor B	Licensor C
License period	1 July 2017 to 30 June 2018 ^(Note)	1 January 2017 to 31 December 2018	1 July 2016 to 30 September 2018	1 November 2016 to 31 December 2019
Territory of distribution	Hong Kong, Macau and Taiwan	The PRC, Hong Kong, Japan, Macau, Taiwan and the US	Singapore, Malaysia, Indonesia, Thailand, Philippines, Vietnam, Taiwan, South Korea, Hong Kong, Macau and the PRC	Hong Kong, Macau, Taiwan, the PRC, Singapore, Malaysia, Philippine, Thailand, Indonesia, South Korea, the US, Canada, Italy, Germany, Spain, France and the United Kingdom
Licensed articles	Mini-toys and polygon figures (多邊形公仔)	Figures	Figures, pens, toy cars and key rings	Figures
Description of the licensed ACG characters	Characters featuring in various animation movie series	Over 100 characters featuring in a classic superhero comic series	Characters featuring in (i) an animated television series; and (ii) an superhero-themed comic book series	Character featuring in a robot-themed comic series
Authorised customer and distribution platform	Wholesale sales	Wholesalers, retailers and our flagship store	Mainly including accessory stores, book stores, toys stores, department toys, toy wholesalers and our online store	All retail and wholesale channels of distribution, except for certain shops in the US

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	Licensors A	Licensors A	Licensors B	Licensors C
Rate and payment of license fees	Fixed percentages ranging from 15% to 16% of the gross invoiced billings depending on the category of licensed products	Fixed percentages ranging from 7.5% to 15% of the gross invoiced billings depending on the distribution platform	Fixed percentages ranging from 6.5% to 15% of the sales depending on the distribution platform and delivery terms	Fixed percentages ranging from 7% to 18% of the net sales value depending on the distribution platform
Minimum License fee payment	A total fixed sum of US\$55,000 payable upon signing of the license agreement	A total fixed sum of US\$432,000 by two payment stages	A total fixed sum of US\$60,000 payable upon signing of the license agreement	A total fixed sum of US\$137,000 by three payment stages
Exclusivity	Not applicable	Not applicable	Not applicable	Not applicable
Governing laws	Hong Kong laws	Hong Kong laws	US laws	Laws of England and Wales

Note:

Our Group has an option to renew for an additional 12 months upon the expiry of the licensed period, subject to the consent of Licensors A.

Based on legal advice sought by our Group, our Directors are not aware of any factors adversely affecting the validity and legal enforceability of the aforesaid four license agreements under their respective governing laws. Each of Licensors A, Licensors B and Licensors C was an independent third party. For the year ended 31 March 2017 and the nine months ended 31 December 2017, we have recorded sales of our own licensed toys with Licensors A (of approximately HK\$1.1 million and HK\$1.2 million, respectively) to a Hong Kong-based theme park operated by the affiliate company of Licensors A.

Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, our Group has obtained all necessary license rights in relation to design, development and distribution of our own licensed toys, and there is no premature termination of our license agreement.

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The brands of our own licensed toys

During the Track Record Period, we have applied the “SENTINEL/千值練”, “TOPI” and “FLAME TOYS” brands in developing our own licensed toys. The following table sets forth a breakdown of our revenue from sales of products bearing the brands of “SENTINEL/千值練”, “TOPI” and “FLAME TOYS” respectively during the Track Record Period:

	For the year ended 31 March				For the nine months ended 31 December	
	2016		2017		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
“SENTINEL/千值練” brand						
– Imported toys from Sentinel Japan ^(Note 1)	16,647	13.5	6,876	5.0	9,295	9.9
– Our own licensed toys ^(Note 2)	12,649	10.3	19,645	14.4	9,231	9.8
“TOPI” brand ^(Note 3)	2,305	1.8	5,775	4.2	4,104	4.4
“FLAME TOYS” brand toys ^(Note 4)	Nil	Nil	Nil	Nil	3,125	3.3

Notes:

1. These mainly comprise ACG figure toys and other products which were sourced by our Group from Sentinel Japan.
2. These comprise: (i) figures series based on a ACG character featuring in a classic superhero comic series of Licensor A; and (ii) a polygon figures (多邊形公仔) series based on a range of classic animation characters of Licensor A.
3. These comprise (i) a mini-toys and figures series based on a range of classic animation characters of Licensor A; and (ii) other products (such as pens and toy cars) based on a range of ACG characters featuring in an animated television series and a superhero-themed comic book series of Licensor B.
4. These comprise a figure based on an ACG character featuring in a robot-themed comic series of Licensor C.

To promote our “TOPI” and “FLAME TOYS” brands and reduce the reliance on “SENTINEL/千值練” brand, going forward, we have and will continue to use our “TOPI” and “FLAME TOYS” brands for developing other lines of our own licensed toys with Licensor B and Licensor C.

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Our Directors consider that our business model is sustainable despite the common use of the “SENTINEL/千值練” brand by our Group and Sentinel Japan in development and sales of licensed products, due to the following reasons:

- (i) Our Group and Sentinel Japan, among others, have entered into a distributorship agreement regarding their respective rights in using the “SENTINEL/千值練” brand. For details, please refer to the paragraph headed “Customers — Arrangements on the use of “SENTINEL/千值練” brand” below in this section. In view of the aforesaid arrangements, our Directors are of the view that the use of the “SENTINEL/千值練” brand by our Group for product design, development, marketing and distribution will remain uninterrupted in the future.
- (ii) As mentioned above, our Group has and will continue to use our self-developed “TOPI” and “FLAME TOYS” brands for developing our own licensed toys with Licensor B and Licensor C, while we will limit the use of the “SENTINEL/千值練” brand for developing our superhero figures series and polygon figures (多邊形公仔) series with Licensor A. In relation to the “TOPI” and “FLAME TOYS” brands, as at the Latest Practicable Date, our Group has registered two, four, one, and one trademarks in Hong Kong, the PRC, Taiwan and Japan respectively. Further, our Group has also applied for the registration of two trademarks in relation to the “FLAME TOYS” brand in the PRC. For further details, please refer to the section headed “B. Further information about the business of our Group — 2. Intellectual property rights” of Appendix VI to this prospectus.
- (iii) As at the Latest Practicable Date, our Group has registered two, six, one and one trademarks in relation to the “SENTINEL/千值練” brand in Hong Kong, the PRC, Taiwan and the US, respectively. Further, our Group has also applied for the registration of one trademark in relation to the “SENTINEL/千值練” brand in the US. For further details, please refer to the section headed “B. Further information about the business of our Group — 2. Intellectual property rights” of Appendix VI to this prospectus. Our Directors are of the view that our current registrations arrangements, together with the aforesaid arrangements with Sentinel Japan, are adequate to safeguard our use of the “SENTINEL/千值練” brand in the major sales territories of our Group.
- (iv) Throughout the Track Record Period and up to the Latest Practicable Date, our Group had not received any notice, claims or legal challenges from third parties regarding our use of the “SENTINEL/千值練” brand.

PRICING STRATEGY

The pricing of our ODM toys is determined with reference to various factors, mainly including: (i) the purchase volume from our customers; (ii) our fee quotations obtained from suppliers for toy production; and (iii) our overhead costs.

The pricing of our imported toys is determined with reference to various factors, mainly including: (i) the expected wholesale and retail price of the toys recommended by our toy licensees; (ii) the purchase cost of the imported toys from the toy licensees; (iii) license fees incurred by our Group (if applicable) and (iv) our overhead costs.

The pricing of our own licensed toys is determined with reference to various factors, mainly including: (i) the license fees incurred by our Group in obtaining the license rights of relevant ACG characters; (ii) the production cost of the finished products and the moulds; (iii) expected quantity of the toys to be sold; and (iv) our overhead costs.

To encourage our distributors to make a larger amount of purchase, we may offer price discount to distributors which have placed bulk orders with us. As a general policy, the wholesale price of our imported toys and own licensed toys is generally priced at a discount of approximately 40% to our own retail price.

INVENTORY POLICY

We do not purchase ODM toys in advance for anticipated orders from customers. Instead, our Group places orders with suppliers on back-to-back basis (i.e. in accordance with the purchase amount from our customers), and hence we do not keep any inventory of ODM toys.

In relation to our imported toys and own licensed toys, most of the products will be shipped to our overseas distributors on the basis of free-carrier or free-on-board at Hong Kong shortly after they are delivered to us by our suppliers. The remaining stock is generally stored at our warehouse which is equipped with locked gates and closed-circuit television security cameras.

Our Directors consider that our inventory was kept at a minimal level given that the purchase/production volume of our products at a higher price range is determined based on the response from our distributors and retail customers during the pre-ordering process, as well as the knowledge and experience of our senior management team.

Inventory provision of nil, nil and approximately HK\$0.3 million was made during each of the two years ended 31 March 2017 and the nine months ended 31 December 2017 respectively, and the amount of merchandise held for sale as at 31 March 2016, 31 March 2017 and 31 December 2017 was approximately HK\$1.5 million, HK\$2.9 million and HK\$1.8 million, respectively.

RETURN AND WARRANTY POLICY

We do not have any return policy for products except for repair or replacement of defective products.

While our production processes were outsourced to suppliers, we bear the responsibility for any product defects attributable to the fault of our Group or our suppliers.

If there is any product defect to the products, our retail customers may inform our customer service team within six months after the official release date, while our distributors would assist their respective customers to deliver defective products to us for replacement or repair within a six-month period.

If the defect is attributable to the suppliers, the suppliers will bear the cost of repair and/or replacement, while we will only bear the cost of product delivery.

During the Track Record Period and up to the Latest Practicable Date, our Directors were not aware of any material complaints or claims relating to product quality of our Group. During the same periods, we did not have any product recall, nor were we made subject to any product liabilities or other complaints, claims or investigations arising from product quality issues.

Our Directors are aware of feedbacks from end-consumers at various online channels regarding their satisfaction level with our products ranging from general opinion on product design to specific product issues. In order to maintain our brand reputation, our Group have put in place various measures in addressing feedbacks from end-consumers, mainly including: (i) we accept product return and replacement in case of any reported defect as mentioned above in this paragraph; and (ii) we encourage our end-consumers to give us their product feedbacks through our customer service hotline and our social media platform. Our sales and marketing team regularly consolidates feedbacks from our end-consumers and submit them for review by our Directors and senior management team.

CUSTOMERS

Characteristics of our customers

Our major customers primarily include (i) toy licensees or toy intermediaries based in Japan and the US which engaged us to supply ODM toys to them according to their specifications and requirements; and (ii) various distributors of our imported toys and own licensed toys in our major territories such as Hong Kong, Japan, the US, the PRC and Taiwan. Our other customers mainly include retail customers who purchased our imported toys and own licensed toys through our flagship store, online store and consignment sales channels or at toy exhibitions and trade fairs.

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The following table sets forth a breakdown of our revenue by business segment and the corresponding sales channel during the Track Record Period:

	For the year ended 31 March				For the nine months ended 31 December	
	2016		2017		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Sales of ODM toys ^(Note 1)	85,525	69.5	83,888	61.3	61,282	65.2
Distribution of imported toys						
Distributors ^(Note 1)	18,481	15.0	21,845	16.0	12,672	13.5
Flagship store	1,316	1.1	2,433	1.8	1,464	1.6
Online store	568	0.4	1,307	0.9	321	0.3
Consignment sales channels	Nil	Nil	34	Negligible	159	0.2
Others ^(Note 2)	2,310	1.9	1,961	1.4	1,644	1.7
Sales of own licensed toys						
Distributors ^(Note 1)	13,424	10.9	18,176	13.3	11,910	12.7
Flagship store	266	0.2	948	0.7	689	0.7
Online store	121	0.1	120	0.1	211	0.2
Consignment sales channels	104	0.1	1,446	1.1	483	0.5
Others ^(Note 2)	1,039	0.8	4,730	3.4	3,167	3.4
Total	123,154	100.0	136,888	100.0	94,002	100.0

Notes:

- During the Track Record Period, Customer Group A and Customer Group B were both our ODM customers and distributors. As such, our revenue derived from sales of ODM toys to these two customer groups were classified as sales to ODM customers, while our revenue derived from sales of our imported toys and own licensed toys to these two customer Group were classified as sales to distributors.
- These mainly include sales at toy exhibitions and trade fairs.

Principal terms of engagement

For customers of ODM toys

Our ODM customers engage us by placing purchase orders on case-by-case basis. We have entered into ODM framework agreements with Customer Group A (including Sentinel Japan and Wing Co., Ltd.), details of which are set out below in this paragraph. Save as such ODM framework agreements, we have not entered into any long-term agreement with our ODM customers, nor did we have any long-term purchase commitments from our ODM customers.

We generally grant our customers a credit term of 30 to 60 days after the issue of invoice or shipment date.

We typically require our ODM customers to settle our payment by bank transfer in US dollars. The ODM toys are generally shipped to our customers on the basis of free-on-board at Hong Kong.

The principal terms of arrangements with our ODM customers are summarized as follows:

	ODM framework agreements with each of Sentinel Japan and Wing Co., Ltd. (each hereinafter referred to as the "Vendor")	Purchase orders with other ODM customers (namely Customer Group B and Customer G)
Term	The agreement shall continue in force for an initial term of five years commencing from 19 February 2017, and thereafter, the agreement will renew automatically for an additional five-year's period, unless either party provides the other party at least six months' written notice of its intent to terminate prior to the expiration of the initial term or the applicable renewal term.	The term is not provided in the purchase order.

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	ODM framework agreements with each of Sentinel Japan and Wing Co., Ltd. (each hereinafter referred to as the "Vendor")	Purchase orders with other ODM customers (namely Customer Group B and Customer G)
Placing of purchase orders	<p>There is no minimum purchase commitment from the Vendor.</p> <p>Not less than 60 days prior to the required delivery date, the Vendor shall deliver to our Group a purchase order confirming the details of the purchase of products. Each purchase order shall include: (i) the name of each product and/or a reference to the product catalogue of our Group as updated from time to time, (ii) order quantity, (iii) delivery date, (iv) unit price, and (v) other instructions or requirements relevant to the purchase order.</p>	<p>There is no minimum purchase commitment from these customers.</p> <p>There is no specific requirements on the timing and formalities regarding the purchase orders placed by these customers.</p>
Payment terms	<p>Subject to any special terms agreed in writing between the Vendor and our Group: (i) Our Group shall invoice the Vendor for the price in respect of all products supplied to it under the agreement on or at any time after each delivery to it; and (ii) Subject to certain rights of the Vendor regarding quality of the products, the Vendor shall pay the price stated in each invoice submitted by our Group within 30 days of the date of the invoice.</p>	<p>We generally grant our customers a credit term of 30 to 60 days after the issue of invoice or shipment date.</p>

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	ODM framework agreements with each of Sentinel Japan and Wing Co., Ltd. (each hereinafter referred to as the "Vendor")	Purchase orders with other ODM customers (namely Customer Group B and Customer G)
Deposit	<p>At the request of our Group, the Vendor shall pay to our Group a deposit of such amount as agreed between it and our Group for the services of design and/or manufacture of the products.</p> <p>In practice, we generally do not require any deposits for the purchase of moulds and finished products.</p>	<p>We generally do not require any deposits for the purchase of moulds and finished products.</p>
Right of first offer	<p>If the Vendor proposes to outsource the design and/or manufacture of any of its products during the terms of the agreements, the Vendor shall send a written notice (the "Offer Notice") to our Group to offer an engagement of our design and/or manufacture services regarding the said product and provide the preliminary design, requirement of the product design, description of the product, order quantity and offered unit price.</p> <p>For a period of 30 days after the delivery of the Offer Notice (the "Acceptance Period"), our Group shall have the right to deliver an acceptance notice to the Vendor to accept the offer by the Vendor under the Offer Notice.</p>	<p>No right of first offer is granted to our Group by these ODM customers.</p>

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ODM framework agreements with each of Sentinel Japan and Wing Co., Ltd. (each hereinafter referred to as the "Vendor")

Purchase orders with other ODM customers (namely Customer Group B and Customer G)

In the event that our Group does not elect to accept the offer of the Vendor under the Offer Notice, the Vendor shall have the right to outsource the design and/or manufacture of its products to third parties provided, however, that (i) such transaction(s) are bona fide, (ii) the unit price of the product offered to third parties is less than the unit price set forth in the relevant Offer Notice and the offer to third parties is on terms and conditions no less favourable to our Group than those set forth in the relevant Offer Notice, and (iii) such transaction(s) are made within 30 days after the Acceptance Period.

Design ownership

The Vendor will maintain design ownership of the products (including but not limited to moulds, prototypes, drawings and finished products) designed, manufactured and assembled by our Group.

The purchase orders generally do not have specific provisions on the design ownership of the products. In practice, we generally acknowledge the customers' right to the design ownership of the products designed, manufactured and assembled by our Group.

	ODM framework agreements with each of Sentinel Japan and Wing Co., Ltd. (each hereinafter referred to as the "Vendor")	Purchase orders with other ODM customers (namely Customer Group B and Customer G)
Product quality	<p>Our Group warrants to the Vendor that all products supplied by our Group under the agreement shall conform in all aspects to the specifications provided and free from defects in workmanship or materials.</p> <p>Our Group shall, within a period of six months from the date of delivery of the products which are proved to our reasonable satisfaction to be damaged or defective due to defects in material or workmanship, repair or at our option replace such products that are returned to us.</p>	<p>The purchase orders generally do not have specific provisions on product quality. In practice, we would arrange repair or replacement of defective products for our customers, where applicable.</p>
Intellectual property rights	<p>The Vendor authorises our Group to use any intellectual property of it in respect of the products supplied to them, including but not limited to the copyright of the ACG characters of such products.</p> <p>The Vendor warrants, represents and undertakes that it shall have the legal rights and authority to authorise our Group to use the intellectual property in relation to the design and manufacture of the products supplied to it.</p>	<p>The purchase orders generally do not have specific provisions on the intellectual property rights arrangements. In practice, our Group would generally require the customers to provide evidence for their rights to the intellectual property in relation to the products ordered by them.</p>

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ODM framework agreements with each of Sentinel Japan and Wing Co., Ltd. (each hereinafter referred to as the "Vendor")

Purchase orders with other ODM customers (namely Customer Group B and Customer G)

If any claim (whether actual or threatened) is made against our Group that the manufacture or sale of the products suppliers to the Vendor infringes the intellectual property or other rights of any third party, the Vendor shall, except to the extent that the claim is due to the default of our Group, indemnify our relevant Group members against all damages or other compensation awarded against our Group in connection with the claim or paid or agreed to be paid by our Group members in settlement of the claim and all legal or other expenses incurred by our Group members in or about the defense or settlement of the claim.

Save as disclosed in the above table, there is no material difference between our terms of engagement with Customer Group A and other ODM customers.

With distributors of imported toys and own licensed toys

Save as the distributorship agreements entered into with Sentinel Japan, Customer D and certain other distributors with insignificant revenue contribution to us, we do not enter into long term distribution agreements with our distributors. All of our distributors place purchase orders on case-by-case basis and did not have any long-term purchase commitments with us.

We generally require new distributors to make full payment before the products are shipped to them. For distributors which have established relationships with us, we do not require any deposits for the products and usually grant them a credit term of 30 to 60 days after shipment of the products to them.

In general, we generally require our distributors to settle payment in US dollars. On some occasions, if we are so required to settle our payment with suppliers of imported toys in Japanese Yen, we will in turn require our distributors to settle payment for such toys to us in Japanese Yen as well.

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Distributorship arrangements with our distributors

The principal terms of our distributorship arrangements with our distributors are summarised as follows:

	Distributorship agreement with Sentinel Japan	Distributorship agreements with Customer D and certain other distributors with insignificant revenue contribution to us	Purchase orders with all other distributors (including but not limited to Customer Group B, Customer C, Customer E and Customer F)
Duration	The term will be for an initial period of five years from 19 February 2017.	The terms will continue unless terminated by either party to the agreement.	The term is not provided in the purchase orders.
Geographical areas	Sentinel Japan is authorised to sell, promote, market and distribute our products in Japan.	The distributor is authorised to sell, advertise and promote the sale and use of the products in certain specified territories.	The purchase orders do not explicitly contain any geographical restrictions. Since May 2017, our quotations have included provisions that the distributors are forbidden to distribute our products outside the respective territories in which they were based.
Exclusivity	Exclusive	Non-exclusive	The purchase orders do not explicitly provide for any exclusivity.
Warranty	Our Group shall, within a period of six months from the date of delivery by us, repair or at our option replace such defective products that are returned to us at the expense of Sentinel Japan.	Our Group shall assist the distributors for the replacement or repair of products with reasonable defects.	The purchase orders do not explicitly provide for any warranty. In practice, our Group will assist the distributors for the replacement or repair of products with reasonable defects.
Goods return arrangement	We do not accept any product return from Sentinel Japan, except for repair or replacement of defective products.	We do not accept any product return from distributors, except for repair or replacement of defective products.	The purchase orders do not provide for any goods return arrangements.

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	Distributorship agreement with Sentinel Japan	Distributorship agreements with Customer D and certain other distributors with insignificant revenue contribution to us	Purchase orders with all other distributors (including but not limited to Customer Group B, Customer C, Customer E and Customer F)
Sales and pricing policy	We do not impose any control on product pricing by Sentinel Japan.	We do not impose any control on product pricing by the distributors.	The purchase orders do not provide any control on product pricing by the distributors.
Rights and obligations of our Group	<p>Our Group shall supply to Sentinel Japan such promotional and marketing materials and training as our Group considers reasonable.</p> <p>Our Group shall take all such steps as may be reasonably required in the normal course to satisfy the orders for the products by Sentinel Japan in accordance with the distributorship agreement.</p>	<p>We shall sell products to distributors at a discount of approximately 40% to the published price (which is our retail price).</p> <p>We shall provide advertising, promotional and training support to the distributors.</p> <p>We may delay schedule, limit production of any product, terminate or limit deliveries of any product, alter the design, materials or construction of any product or add new products without incurring any liability to the distributor whatsoever.</p>	The purchase orders do not explicitly provide for any specific rights and obligations of our Group.

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	Distributorship agreement with Sentinel Japan	Distributorship agreements with Customer D and certain other distributors with insignificant revenue contribution to us	Purchase orders with all other distributors (including but not limited to Customer Group B, Customer C, Customer E and Customer F)
Rights and obligations of distributor	<p>Sentinel Japan shall promote and extend the sales network of our products throughout the territory to all existing and potential customers upon reasonable terms.</p> <p>Sentinel Japan shall observe all reasonable directions and instructions given by our Group in relation to the promotion and marketing of our products.</p> <p>Sentinel Japan shall provide details of any complaint received from customers or others relating to the quality of our products.</p>	<p>The distributor shall notify us of any product liability or product defect liability claims. It shall also comply with the rules and regulations issued by us regarding the use of our brand.</p> <p>The distributor shall not solicit any of our customers or prospective customers and provide them with services that compete with us without our prior written consent.</p> <p>The distributor shall not use our trademarks as part of its trade name, trademark, company or firm name. The distributor shall also not publish or initiate any practice which may mislead or deceive the public or may be detrimental to our trademark or goodwill.</p>	<p>The purchase orders do not explicitly provide for any specific rights and obligations of our distributors.</p>
Minimum/maximum purchase amounts	Not applicable	Not applicable	Not applicable
Obsolete stock arrangements	Not applicable	Not applicable	Not applicable

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	Distributorship agreement with Sentinel Japan	Distributorship agreements with Customer D and certain other distributors with insignificant revenue contribution to us	Purchase orders with all other distributors (including but not limited to Customer Group B, Customer C, Customer E and Customer F)
Conditions for terminating and renewing the agreement	Our Group shall be entitled to terminate the distributorship agreement immediately if, among other things, Sentinel Japan is in breach of any terms therein or is subject to any insolvency, bankruptcy or other arrangements with creditors. Sentinel Japan shall have an option, exercisable by giving at least six months' notice prior to the expiration of the initial term, to renew the distributorship agreement for another five years.	Not applicable	Not applicable
Payment and credit terms	60 days after shipment.	Customer D: 30 days. Other insignificant distributors: 14 days before shipment.	Our major distributors or distributors with established relationships with us: generally 30 to 60 days after shipment. New distributors: full payment before shipments.
Sales and inventory reports	Sentinel Japan shall provide an inventory list which reports the stock level of each product item and submit the inventory list to us upon request.	The distributor shall provide an inventory list which reports the stock level of each product item and submit the inventory list to us upon request.	Not applicable
Sales and expansion targets	Not applicable	Not applicable	Not applicable

Save as disclosed in the above table, there is no material difference between our terms of engagement with Sentinel Japan and our other distributors.

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Top customers

Set out below is a breakdown of our revenue by major customers during the Track Record Period and their respective background information:

For the year ended 31 March 2016

Rank	Customer	Principal business activities	Year(s) of business relationship	Role of customer	Typical credit terms and payment method	Revenue derived	
						HK\$'000	%
1	Sentinel Japan and Wing Co., Ltd. (collectively referred to as "Customer Group A") ^(Note 1)	Wholesale of toys in Japan	Sentinel Japan: Since 2009 Wing Co., Ltd.: Since 2005	ODM customer and distributor	60 days; by bank transfer	82,421	66.9
2	Customers B1, B2 and B3 (collectively referred to as "Customer Group B") ^(Note 2)	Wholesale of toys in the US	Since 2014	ODM customer and distributor	30 to 60 days; by bank transfer	6,649	5.4
3	Customer C	Wholesale of toys in Hong Kong and the PRC	Since 2012	Distributor	30 to 60 days; by bank transfer	4,742	3.9
4	Customer D	Wholesale of toys in Hong Kong	Since 2013	Distributor	30 days; by bank transfer	4,077	3.3
5	Customer E	Wholesale of toys in Taiwan	Since 2014	Distributor	30 to 60 days; by bank transfer	3,397	2.8

Notes:

1. Sentinel Japan and Wing Co., Ltd. have a common shareholder at the material time according to information publicly available. As informed by Sentinel Japan and Wing Co., Ltd. upon our enquiries, the common shareholder had transferred all of his shareholdings in Sentinel Japan to one of the other shareholders on 10 January 2017. For further details, please refer to the paragraph headed "Customers — Customer concentration" in this section.
2. Customer B1, Customer B2 and Customer B3 have a common management member at the material time.

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For the year ended 31 March 2017

Rank	Customer	Principal business activities	Year(s) of business relationship	Role of customer	Typical credit terms and payment method	Revenue derived	
						HK\$'000	%
1	Customer Group A	Wholesale of toys in Japan	Sentinel Japan: Since 2009 Wing Co., Ltd.: Since 2005	ODM customer and distributor	60 days; by bank transfer	85,396	62.4
2	Customer C	Wholesale of toys in Hong Kong and the PRC	Since 2012	Distributor	30 to 60 days; by bank transfer	10,622	7.7
3	Customer Group B	Wholesale of toys in the US	Since 2014	ODM customer and distributor	30 to 60 days; by bank transfer	5,350	3.9
4	Customer F ^(Note 2)	Wholesale of toys in Hong Kong	Since 2016	Distributor	N/A ^(Note 1) ; by bank transfer	3,252	2.4
5	Customer D	Wholesale of toys in Hong Kong	Since 2013	Distributor	30 days; by bank transfer	2,812	2.1

Notes:

- Credit terms are not provided in the relevant transaction documents
- Customer F confirmed that it primarily resold our products to a distributor (namely Customer E) and retailers in Taiwan. Customer E confirmed that it had sourced our products from Customer F (instead of purchasing them directly from our Group) because such products could then be grouped with the other toys that it purchased from Customer F for bulk delivery to Taiwan (the “**Bulk Delivery Arrangement**”). As Customer E had increasingly relied on the Bulk Delivery Arrangement in procuring our products, the amount of its direct purchase from our Group decreased from approximately HK\$3.4 million for the year ended 31 March 2016 to approximately HK\$0.5 million for the year ended 31 March 2017. Customer E had ceased to make any direct purchase from us since October 2016. Customer E confirmed that they have been satisfied with the quality of our products since the commencement of business relationship with our Group, and that the cessation of direct purchase from us was solely because of their internal management and was not attributable to any quality issue of our products.

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For the nine months ended 31 December 2017

Rank	Customer	Principal business activities	Year(s) of business relationship	Role of customer	Typical credit terms and payment method	Revenue derived	
						HK\$'000	%
1	Customer Group A	Wholesale of toys in Japan	Sentinel Japan: Since 2009 Wing Co., Ltd.: Since 2005	ODM customer and distributor	60 days; by bank transfer	63,617	67.7
2	Customer C	Wholesale of toys in Hong Kong and the PRC	Since 2012	Distributor	30 to 60 days; by bank transfer	4,297	4.6
3	Customer D	Wholesale of toys in Hong Kong	Since 2013	Distributor	30 days; by bank transfer	1,913	2.0
4	An affiliate of Licensor A	Operation of a theme park and hotels in Hong Kong	Since 2016	Distributor	90 days; payment upon delivery	1,179	1.3
5	Customer H	Wholesale of toys in Taiwan	Since 2012	Distributor	N/A ^(Note) ; by bank transfer	1,076	1.1

Note: Credit terms are not provided in the relevant transaction documents.

None of our Directors, their close associates, or any Shareholders who owned more than 5% of the number of issued shares of our Company as the Latest Practicable Date had any interest in any of the five largest customers of our Group during the Track Record Period.

Our relationship with Sentinel Japan

Sentinel Japan (being a member of Customer Group A during the Track Record Period) was founded on 17 July 2009 and carries out wholesale of toys in Japan. According to information publicly available as at the Latest Practicable Date, the turnover of Sentinel Japan were approximately Japanese Yen 1.8 billion and approximately Japanese Yen 1.5 billion for the two financial years ended 30 June 2016 and 30 June 2017, respectively.

As at the incorporation of Sentinel Hong Kong back in 2008, two of its founders (the “**Japanese Individual A**” and “**Japanese Individual B**”, collectively the “**Japanese Individuals**”) held in aggregate two-thirds of the shareholdings in Sentinel Hong Kong. The shareholdings in Sentinel Hong Kong were later sold by the Japanese Individuals to Mr. Li in August 2009. Subsequently, the Japanese Individuals, among others, founded Sentinel Japan for developing its own licensed toys based on ACG characters of Japanese licensors. For further details, please refer to the section headed “History, reorganisation and corporate structure” in this prospectus.

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Since 2009, Sentinel Japan has engaged us to design and manufacture toys on ODM basis. Sentinel Japan subsequently engaged our Group as its sole distributor outside Japan in 2012. There has not been any material disruption in the business relationship between Sentinel Japan and our Group since our business relationships commenced. Sentinel Japan confirmed that it did not have any in-house toy manufacturing operation, nor any sales operations outside Japan. Therefore, Sentinel Japan has decided to engage Sentinel Hong Kong as ODM service supplier to design and manufacture its licensed toys given (i) the language barrier and the practical difficulties in performing quality control on its own with toy manufacturers in the PRC; (ii) the established relationship between Mr. Li and one of the Japanese Individual since they made acquaintances by around 2003; (iii) its satisfaction with our consistently high product quality; and (iv) the education background and industry knowledge of Mr. Li.

Since we started developing our own licensed toys back in 2013, we had engaged Sentinel Japan as our sole distributor in Japan. For further details, please refer to the paragraphs headed “Customers — Principal terms of engagement” and “Sales and marketing — Our distributor network” below in this section.

Our Directors consider that there has been a clear delineation in the business activities of our Group and Sentinel Japan as set out below:

	Our Group	Sentinel Japan
Geographical territories of distribution	<p>Our Group distributes our imported toys and own licensed toys in local and overseas markets mainly through (i) local and overseas distributors; and (ii) our online store and flagship store in Hong Kong.</p> <p>Sentinel Japan has been the exclusive distributor of our own licensed toys in Japan since 19 February 2017. For details, please refer to the paragraph headed “Customers — Principal terms of engagement” above in this section.</p>	<p>Sentinel Japan confirmed that it did not have any sales operations outside Japan.</p> <p>Our Group has been the exclusive distributor of Sentinel Japan’s licensed toys in worldwide markets except Japan since 19 February 2017. For details, please refer to the paragraph headed “Suppliers — Principal terms of engagement” below in this section.</p>

	Our Group	Sentinel Japan
Brands for licensed toys development	<p>Both our Group and Sentinel Japan had used the “<i>SENTINEL/千值練</i>” brand in licensed toys development. On one hand, our Group had registered the trademark of “<i>SENTINEL/千值練</i>” in Hong Kong, the PRC, Taiwan and the US. On the other hand, Sentinel Japan had registered the trademark of “<i>SENTINEL/千值練</i>” in Japan.</p> <p>Our Group, Sentinel Japan and the Japanese Individuals had entered into a distributorship agreement regarding, among other things, our respective rights in using the “<i>SENTINEL/千值練</i>” brand. For details, please refer to the paragraph headed “Customers — Arrangements on the use of “<i>SENTINEL/千值練</i>” brand” below in this section.</p> <p>In addition to the “<i>SENTINEL/千值練</i>” brand, our Group has also used our self-developed “<i>TOPI</i>” and “<i>FLAME TOYS</i>” brands in licensed toy development.</p>	
Background of the licensors	<p>In relation to our own licensed toys, our Group obtained the license rights for product development from various licensors of US entertainment and toy brands.</p>	<p>In relation to its own licensed toys, Sentinel Japan obtained the license rights for product development from various licensors of Japanese toy brands.</p>

Arrangements on the use of “SENTINEL/千值練” brand

Our Directors are aware that Sentinel Japan has applied the “SENTINEL/千值練” brand for the development, marketing and distribution of its licensed toys in Japan. Further, Sentinel Japan has registered a trademark in relation to the “SENTINEL/千值練” brand in Japan as at the Latest Practicable Date. In order to delineate the rights of our Group and Sentinel Japan in using the “SENTINEL/千值練” brand in our business operation, a distributorship agreement was entered into among Sentinel Japan (as seller), Sentinel Hong Kong (as distributors) and the Japanese Individuals on 19 February 2017. The major terms of the distributorship agreement are set out in the paragraph headed “Suppliers — Principal terms of engagement” in this section, and those provisions relation to the “SENTINEL/千值練” brand are set out below:

- (i) Sentinel Japan and the Japanese Individuals confirm, acknowledge and agree that Sentinel Hong Kong has all rights to the registered trademarks in Hong Kong regarding the “SENTINEL/千值練” brand (the “**Hong Kong Trademarks**”) (details of which are set out in the section headed “Statutory and General Information — B. Further information about the business of our Group — 2. Intellectual property rights”), including but not limited to (a) applying the Hong Kong Trademarks in the name of a company; (b) manufacturing and marketing products under the Hong Kong Trademarks; (c) applying the Hong Kong Trademarks in advertisements and promotion materials; (d) registering the Hong Kong Trademarks in any other jurisdictions other than Japan; and (e) granting license to any third parties for the aforesaid uses of the Hong Kong Trademarks; and
- (ii) Sentinel Japan and the Japanese Individuals confirm, acknowledge and agree that Sentinel Hong Kong may carry out its business of design, manufacture and distribution of toys and figures of ACG characters (the “**Business**”) under the Hong Kong Trademarks in Japan, for which purpose each of Sentinel Japan and the Japanese Individuals will not claim its/his rights to any brand names or trademarks against Sentinel Hong Kong in connection with the application of the Hong Kong Trademarks in the Business carried out in Japan.

In view of the aforesaid arrangements, our Directors consider that the use of the “SENTINEL/千值練” brand by our Group for product design, development, marketing and distribution will remain uninterrupted in the future.

Our relationship with Wing Co., Ltd.

Wing Co., Ltd. (being a member of Customer Group A during the Track Record Period) was founded in 3 March 1988 and carries out wholesale of toys in Japan. According to information publicly available as at the Latest Practicable Date, the turnover of Wing Co., Ltd. were approximately Japanese Yen 1.1 billion, approximately Japanese Yen 1.1 billion and approximately Japanese Yen 1.1 billion for the three financial years ended 28 February 2016, 29 February 2017 and 28 February 2018, respectively.

By around 2005, Wing Co., Ltd. decided to outsource the production process of its licensed toys to overseas manufacturers. At that time, a senior member of management at Wing Co., Ltd., who made acquaintance with Mr. Li in his previous employment, learned that Mr. Li had set up Bestone Creative for designing and manufacturing ODM toys for overseas toys companies. Therefore, upon referral by the aforesaid individual, Wing Co., Ltd. started placing purchase orders for ODM toys with us, and since then there has not been any material disruption in the business relationship between Wing Co., Ltd. and our Group.

Wing Co., Ltd. confirmed that it has continued to engage us as ODM service supplier to design and manufacture its toy products since 2005 mainly due to (i) the language barrier and the practical difficulties in conducting quality control that may arise when it works with PRC manufacturers directly; (ii) its satisfaction with our consistently high product quality; and (iii) the education background and industry knowledge of Mr. Li.

Relationship between Sentinel Japan and Wing Co., Ltd.

Sentinel Japan and Wing Co., Ltd. were classified as Customer Group A during the Track Record Period because these two companies have a common shareholder (the “**Common Shareholder**”) during the Track Record Period. As informed by Sentinel Japan and Wing Co., Ltd. upon our enquiries, the Common Shareholder (i.e. approximately 28.5% of the issued shareholdings in Sentinel Japan) had transferred all of his shareholdings (the “**Shareholdings Transfer**”) in Sentinel Japan to one of the other shareholders at a consideration of Japanese Yen 5,000,000 on 10 January 2017, upon the approval of the board of directors of Sentinel Japan. The Shareholdings Transfer was completed on the same date. For further details, please refer to the paragraph headed “Customers — Customer concentration” in this section.

Since the commencement of our business relationship with each of Sentinel Japan and Wing Co., Ltd, our Directors is aware that (i) the two Japanese companies have been operated by two different groups of management teams, and they possessed different license rights portfolio; and (ii) although there was a Common Shareholder prior to the Shareholdings Transfer as mentioned above, the controlling shareholders of the two Japanese companies belong to two different group of individuals. In view of the aforesaid, our Directors consider that Sentinel Japan and Wing Co., Ltd have been independent from each other. Nevertheless, for classification of our customers’ grouping, Sentinel Japan and Wing Co., Ltd have been treated as a single customer by us.

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The Japanese Individual A (as defined and discussed in the paragraph headed “Our relationship with Sentinel Japan” above in this section) confirmed that, back in mid-2009, it was agreed between the Japanese Individual A and the Common Shareholder that: (i) the Common Shareholder would inject Japanese Yen 1,000,000 as part of the set up fund of Sentinel Japan; and (ii) in return, a total of 20 shares in Sentinel Japan (i.e. 28.5% of its entire shareholdings) would be issued to the Common Shareholder. Given that the Common Shareholder expressed his intent to realise his investments in Sentinel Japan in late 2016, it was agreed between the Common Shareholder and the Japanese Individual A that the shares held by the Common Shareholder in Sentinel Japan would be transferred back to the Japanese Individual A at a consideration of Japanese Yen 5,000,000 on 10 January 2017.

Our Directors consider the Shareholdings Transfer has no material impact on our Group’s business based on the following:

- (i) since the completion of the Shareholdings Transfer and up to the Latest Practicable Date, our Group has continued to receive incoming invitation and purchase orders from both Sentinel Japan and Wing Co., Ltd. As such, we have not experienced any disruption or other adverse impact on our business relationships with these two customers as a result of the Shareholdings Transfer; and
- (ii) immediately before the Shareholdings Transfer, the Common Shareholder was only a minority shareholder in Sentinel Japan, holding approximately 28.5% of its then issued shareholdings. Further, the Common Shareholder did not hold any directorship in Sentinel Japan. Therefore, our Directors are of the view that the Shareholdings Transfer will not result in any material changes in the business relationships of Sentinel Japan with our Group in the future.

Customers who were also our suppliers

Purchase of imported toys from our ODM customers

- (I) Arrangements for sourcing imported toys from ODM customers

During the Track Record Period, D4 Toys had on occasions purchased imported toys from our ODM customers (i.e. toy licensees), in which case the toys purchased by D4 Toys were the toys that had been previously sold by Sentinel Hong Kong to the same toy licensees on ODM basis. These customers include Sentinel Japan (being a member of Customer Group A), Customer Group B and Customer G (being a toy company in Singapore). In this context, we regard such customers as our suppliers in those purchase transactions.

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In relation to the imported toys that had been previously sold by Sentinel Hong Kong to toy licensees on ODM basis, D4 Toys generally sourced back such imported toys at a purchase price representing a mark-up margin ranging from approximately 70% to 480% (as compared to the price at which we sold such toys to the same toy licensees on ODM basis).

While Sentinel Hong Kong was responsible for selling ODM toys to the toy licensees, D4 Toys, our operating subsidiary which carries out toy distribution, might obtain product information of such toys from the toy licensees and conduct pre-ordering through our various distribution platforms. Based on the pre-orders received and the expected sales quantity, D4 Toys would in turn place purchase orders with the toy licensees accordingly. Once our purchase orders were accepted by the toy licensees, we would keep the units that we purchased for our own use and the remaining amount of toys (i.e. the number of toys purchased by the toy licensees from Sentinel Hong Kong minus the number of units that were purchased back by D4 Toys) would be delivered to the toy licensees.

(II) Reasons for our ODM customers engaging us to design and distribute its licensed toys

In 2012, Mr. Li intended to develop our imported toys distribution business by purchasing back our ODM toys from Sentinel Japan and reselling them through our own distribution channels. This purchase-back and resell arrangement enables our Group to leverage on the license rights of Sentinel Japan (as licensee) in developing and distributing licensed toys based on Japanese ACG characters, while allowing us to diversify our core business from ODM toys business and develop an additional source of revenue.

As confirmed by our Directors and supported by the F&S Report, it is not uncommon in the ACG toys industry for a toy licensee to engage an offshore toy group (such as our Group) to design and distribute its licensed toys at the same time. On one hand, the toy licensee engaged the offshore toy group to design and manufacture toys on ODM basis, which is consistent with the ACG toys industry practice as discussed in the sections headed "Industry Overview — Japan ACG figure toy market analysis — Typical value chain" in this prospectus. On the other hand, if so required by the toy group, the toy licensee may sell back part of the same toys to the toy group. This is mainly because the distribution network of the toy licensee and the offshore toy group may be different due to their geographical locations and market positions. By engaging the toy group as one of its distributors, the toy licensee may leverage on the distribution network of the toy group in the offshore markets and potentially increase the sales channels of its licensed toys. For the 12 months ended 30 June 2016, our purchase of imported toys from Sentinel Japan amounted to a sum equivalent to JPY88.3 million, accounting for 4.9% of the total turnover of Sentinel Japan for the same period.

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In addition, our pre-ordering process for the imported toys would also assist our ODM customers to determine the production volume more accurately based on the response received from our distributors and retail platforms during the process. As discussed in the paragraph headed “Sales and marketing — Pre-ordering process” below in this section, we may launch a pre-ordering process for imported toys whereby product details and sales information will be provided to our distributors and published at our online store and flagship store in Hong Kong. Based on the pre-orders received and the expected sales quantity, D4 Toys would in turn place purchase orders with our ODM customers for the relevant products. Our major ODM customers confirmed that they will usually take into account our purchase orders before determining the actual production volume of their products. Therefore, our Directors believe that our pre-ordering process is conducive to the production planning of our ODM customers, and is one of the main reasons that these customers engaged us as their offshore distributor.

Besides, our pre-ordering process could enable a toy licensee to achieve greater economies of scale in the production of its licensed toys. The production of licensed toys (in particular figure toys) typically requires the use of mould for configuration which would involve a sizeable fixed production cost on the part of the toy licensee. As we solicit pre-orders for a licensed toy from our distributors and retail platforms, our ODM customer (i.e. the toy licensee) will in turn enlarge the production scale of the licensed toy. As the fixed mould cost is allocated to a larger quantity of products, this will result in a lower average per unit production cost. As such, our Directors believe that our one-stop design and distribution services are essential in: (i) creating greater economies of scale to our ODM customers, which could not be replicated by other ODM service suppliers without established distribution networks; and (ii) fostering a mutually beneficially and complimentary relationship between us and our ODM customers.

Further, it is also beneficial to our Group to source imported toys from our ODM customers for resale. As we have provided ODM services to these customers, our Group would possess first-hand knowledge regarding the quality, features and functions of their products. Based on our experience in toy distribution, our Group is generally able to assess the expected popularity and market reception to these products. By sourcing licensed toys from our ODM customers, we would be able to save up the time and resources to be incurred in (i) identifying potential targets of imported toys with comparable quality for resale; and (ii) negotiating for new distributorship arrangements with other overseas toy licensees.

(III) Accounting treatment for imported toys sourced from ODM customers

Generally for our sales transaction, we recognise our revenue in respect of each sales transaction following our accounting policies, pursuant to which revenue is recognised when goods are delivered at the customers' premises for domestic sales or when goods are shipped on board for export sales which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. However, according to paragraph 13 of the Hong Kong Accounting Standard 18 – Revenue: “The (revenue) recognition criteria are applied to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole. For example, an entity may sell goods and, at the same time, enter into a separate agreement to repurchase the goods at a later date, thus negating the substantive effect of the transaction; in such a case, the two transactions are dealt with together.”

As mentioned above, in our business dealings with our ODM customers (including Sentinel Japan, Customer Group B and Customer G), on one hand, ODM toys were sold by Sentinel Hong Kong (being our subsidiary) to such ODM customers, while, on the other hand, D4 Toys (our subsidiary) had on occasions purchased back part of the ODM toys (which had been previously sold by Sentinel Hong Kong to such ODM customers) from the same ODM customers. As such, the sales of ODM toys by Sentinel Hong Kong to the ODM customers mentioned above typically comprised (i) the sales of part of the ODM toys by Sentinel Hong Kong to our ODM customers that were kept by such ODM customers for subsequently selling to their own customers; and (ii) the sales of the remaining ODM toys by Sentinel Hong Kong to such ODM customers (the “**Back-to-Back Sales Transactions**”) that were sold back to D4 Toys (the “**Buy-Back Transactions**”). Therefore, in accordance with paragraph 13 of Hong Kong Accounting Standard 18, both the Back-to-Back Sales Transactions and Buy-Back Transactions (which formed a series of related transactions) were considered as a whole and dealt with together in determining whether the revenue recognition criteria have been met. Accordingly, no revenue and gross profit were recognised solely from the Back-to-Back Sales Transactions when the relevant ODM toys were sold to ODM customers. Instead, revenue and gross profit were recognised only when the ODM toys are ultimately sold by D4 Toys to its customers.

For each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, there were a total of number of 24,621, 26,828 and 5,614 Back-to-Back Sales Transactions in terms of sales quantity by unit, which amounted to approximately HK\$5.4 million, HK\$4.8 million and HK\$1.8 million, respectively.

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For each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, there were a total of number of 24,621, 26,828 and 5,614 Buy-Back Transactions in terms of sales quantity by unit, which amounted to approximately HK\$11.9 million, HK\$11.2 million and HK\$4.2 million, respectively.

Under the applicable accounting standards, our key accounting treatment processes involved in the Back-to-Back Sales Transactions and Buy-Back Transactions are illustrated as follows:

- (i) Revenue is recognised by Sentinel Hong Kong when our ODM customers have accepted the ODM toys and the related risks and rewards of the ownerships.
- (ii) D4 Toys' inventories comprise all cost of our purchase from the ODM customers and other costs incurred in delivering the ODM toys to locations designated by D4 Toys.
- (iii) In respect of the inventories sold by Sentinel Hong Kong to the ODM customers which were purchased back by D4 Toys, the transaction amount of the revenue and the cost of goods sold in relation to the sales from Sentinel Hong Kong to the ODM customers will be eliminated on a consolidated basis. Therefore, before the inventories are subsequently sold by D4 Toys to its distribution channels, the unrealised profit (the "**Unrealised Profit**") recorded for the inventories held by D4 Toys (which represents the difference between (i) the transaction amount charged to Sentinel Japan by Sentinel Hong Kong for the ODM toys; and (ii) the costs of inventories of Sentinel Hong Kong for such ODM toys) will also be eliminated on a consolidated basis. In other words, on a consolidated basis, the Unrealised Profit in relation to the inventory purchased back by D4 Toys will only be realised when they are sold by D4 Toys through its various distribution channels.

When the ODM customers place purchase orders to Sentinel Hong Kong, our chief executive officer and marketing manager will estimate the volume of the Buy-Back Transactions according to the pre-orders received from our distribution platforms and the expected sales quantity. Based on the above practice, we determine most of our placement of orders for the Buy-Back Transactions at the initial stage of the Back-to-Back Sales Transactions (i.e. before the delivery of such products to these ODM customers when the title of goods is passed). Subsequent orders of Buy-Back Transactions, which took place after the completion of the Back-to-Back Sales Transactions, were rare and immaterial in terms of both sales quantity and transaction amount. The Back-to-Back Sales Transactions are completed once ODM customers confirmed their acceptance of the product delivery and the related risks and rewards of the ownership. Hence, our Directors consider that there is generally no material timing difference between our Back-to-Back Sales Transactions and the Buy-Back Transactions.

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Adjustments are made for all relevant Back-to-Back Sales Transactions and the Buy-Back Transactions during the Track Record Period, and we are not aware of any cut-off errors in recording such transactions during the same period. For our internal practice, our chief executive officer will (i) conduct meetings with our marketing manager, sales manager and accounting staff before and immediately after the end for each of the reporting period to review the need for any additional Buy-Back Transactions by considering the latest market response to the ODM toys; (ii) where any additional Buy-Back Transactions are necessary, notify our accounting department to make corresponding adjustments on the Back-to-Back Sales Transactions and the Buy-Back Transactions on a timely basis; (iii) work closely with our financial controller to ensure the completeness and accurate recording of relevant transactions in our accounting systems.

Our Group has assessed the effect of the adoption of HKFRS 15 and our Directors consider that there will not be significant impact on the Group's results and financial position for the two years ended 31 March 2017 and the nine months ended 31 December 2017.

Purchase of imported toys from our distributors

Sentinel Japan (being a member of Customer Group A), Customer C and Customer Group B were our toy distributors in Japan, the PRC and the US during the Track Record Period, respectively. Meanwhile, during the Track Record Period, we had also purchased imported toys from Sentinel Japan, Customer C and Customer Group B for resale through our distribution platform. As confirmed by our Directors, it is a common practice in the ACG toys industry for toy distributors to purchase/sell their toys and related products from/to each other for resale as this could enable their products to be distributed in wider scope of distribution network and increase the range of their product portfolio available for sale.

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Transaction amount with customers who were also our suppliers

The following table sets forth the transaction amount in relation to our customers from whom we had purchased imported toys during the Track Record Period:

	For the year ended 31 March		2017		For the nine months ended	
	2016	Approximate %	2017	Approximate %	31 December 2017	Approximate %
	HK\$'000		HK\$'000		HK\$'000	
Customer Group A						
Revenue derived and approximate % of our total revenue	82,421	66.9	85,396	62.4	63,617	67.7
Purchase amounts and approximate % of our total purchases ^(Note)	14,388	15.6	16,576	17.4	5,957	8.8
Gross profit from such customer and approximate % of our total gross profit	27,133	84.2	27,220	67.8	15,727	58.2
Gross profit margin in relation to such customer	-	31.1	-	30.2	-	26.5
Customer C						
Revenue derived and approximate % of our total revenue	4,742	3.9	10,622	7.7	4,297	4.6
Purchase amounts and approximate % of our total purchases	436	0.5	8	0.0	Nil	Nil
Gross profit from such customer and approximate % of our total gross profit	1,206	3.7	3,260	8.1	1,139	4.2
Gross profit margin in relation to such customer	-	25.4	-	30.7	-	26.5
Customer Group B						
Revenue derived and approximate % of our total revenue	6,649	5.4	5,350	3.9	848	0.9
Purchase amounts and approximate % of our total purchases	65	0.1	283	0.3	Nil	Nil
Gross profit from such customer and approximate % of our total gross profit	1,325	4.1	562	1.4	6.4	Negligible
Gross profit margin in relation to such customer	-	27.7	-	30.7	-	0.8%
Customer G						
Revenue derived and approximate % of our total revenue	2,016	1.6	Nil	Nil	Nil	Nil
Purchase amounts and approximate % of our total purchases	672	0.7	Nil	Nil	Nil	Nil
Gross profit from such customer and approximate % of our total gross profit	594	1.8	Nil	Nil	Nil	Nil
Gross profit margin in relation to such customer	-	29.5	-	Nil	-	Nil

Note: These include our purchase from both Sentinel Japan and Supplier C2 because these two companies are grouped together as Supplier Group C. For further details, please refer to the paragraph headed "Suppliers — Top suppliers" in this section.

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Customer concentration

For each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, the percentage of our total revenue attributable to our largest customer amounted to approximately 66.9%, 62.4% and 67.7%, respectively, while the percentage of our total revenue attributable to our five largest customers combined amounted to approximately 82.3%, 78.5% and 76.7%, respectively.

The following table sets forth a breakdown of revenue attributable to Customer Group A during the Track Record Period by our business segment:

	For the year ended 31 March				For the nine months ended	
	2016		2017		31 December	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Sales of ODM toys ^(Note 1)	78,565	95.3	82,398	96.5	61,189	96.2
– Sentinel Japan	50,305	61.0	49,001	57.4	35,968	56.6
– Wing Co., Ltd.	28,260	34.3	33,397	39.1	25,221	39.6
Distribution of imported toys to						
Sentinel Japan ^(Note 2)	Nil	Nil	159	0.2	Nil	Nil
Sales of own licensed toys to						
Sentinel Japan ^(Note 2)	3,856	4.7	2,839	3.3	2,428	3.8
Total	82,421	100.0	85,396	100.0	63,617	100.0

Notes:

1. It includes sales of both finished products and moulds.
2. We did not record any sales of imported toys or own licensed toys to Wing Co., Ltd. during the Track Record Period.

As supported by F&S Report and based on publicly available information of certain listed companies engaged in similar business, our Directors consider that such customer concentration is not uncommon for toy companies. They further consider that our Group will be able to maintain our business relationship with Customer Group A in the future due to the following factors:

- (i) Established relationships with Customer Group A

The members of Customer Group A, namely Sentinel Japan and Wing Co., Ltd., had long-standing business relationship with us for over 7.5 years and 11 years, respectively, and there has been no disruption in our business relationship with Sentinel Japan and Wing Co., Ltd. since we started providing service to them. Our Directors also confirmed that there have been no changes in the materials terms of the agreements between our Group and each of Sentinel Japan and Wing Co., Ltd. since our commencement of business relationship with them. We would therefore try to accommodate their demands for our

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ODM toys by focusing our resources on them. Our Directors are of the view that it is in the best interest to continue to focus our resources and serving customers which have long-term business relationships with our Group.

(ii) Reducing reliance on Customer Group A

During the Track Record Period, we have reduced our reliance on Customer Group A while at the same time achieving growth in our business as evidenced by the increase in our revenue and gross profit during the Track Record Period. There has been a decreasing trend in the percentage of total revenue derived from Customer Group A from approximately 66.9% for the year ended 31 March 2016 to 62.4% for the year ended 31 March 2017. Our Directors expect that our reliance on Customer Group A will decline further, taking into account the trend in historical figures and the expansion in the sales amount and the portfolio of our own licensed products.

(iii) Mutual and complimentary reliance with Customer Group A

Sentinel Japan and Wing Co., Ltd. placed reliance on us in providing a stable supply of ODM toys. Our major suppliers of manufacturing services confirmed that they do not have any in-house design and development team for ACG figure toys. Our Directors consider that due to language barrier and lack of sufficient product design, mechanical engineering knowledge and quality control capability of our suppliers, it is unlikely that in the foreseeable future our Japanese customers would bypass us and directly engage our suppliers for the products they require.

Further, our Group has been the single largest toy supplier of Sentinel Japan and Wing Co., Ltd during the Track Record Period. Sentinel Japan confirmed that the purchase made from our Group accounted for approximately 90% of its total purchase for each of the two years ended 31 March 2017. Wing Co., Ltd. also confirmed that the purchase made from our Group accounted for approximately 70% of its total purchase for each of the two years ended 31 March 2017. Our Directors believe this reflected our ability to meet the requirements of Sentinel Japan and Wing Co., Ltd. in terms of product quality and pricing, which could not be easily replicated by other ODM service providers in the market.

(iv) Our right of first refusal granted from Customer Group A

Pursuant to the ODM framework agreements entered into with our Group, if Sentinel Japan and Wing Co., Ltd. proposed to outsource the design and/or manufacture processes of any of their respective products during the term of the agreements, they shall give our Group the right of first offer in accepting the orders for those ODM products. For further details, please refer to the paragraph headed "Customers — Principal terms of engagement" above in this section. Our Directors believe that the aforesaid arrangements have (i) indicated the confidence of these customers in our ability to deliver quality products according to their production schedule; and (ii) reinforced our position as their first choice offshore ODM toys supplier.

(v) Our pre-ordering services to Sentinel Japan

During our long-term course of dealings with Customer Group A, we have offered continuous ODM services and other value-added services to Customer Group A. Attributed to our experienced management team and distribution networks, our Group had not only been involved in the design of Customer Group A's licensed toys, but we had also from time to time conducted pre-ordering for the licensed toys of Sentinel Japan through our distributors network and retail platform. For details, please refer to the paragraph headed "Customers — Customers who were also our suppliers". We believe that our pre-ordering services have assisted Sentinel Japan to determine the production volume of its licensed toys more accurately based on the response received from our distributors and retail platform during the pre-ordering process, and such services could not be offered by ODM suppliers who are solely engaged in design and manufacturing of licensed toys.

(vi) Change of supplier may negatively impact Customer Group A's business operations

Given that a large majority of the licensed toys of Customer Group A were sourced from our Group and considering that, as in line with normal market practice, Customer Group A is required under its license agreements to launch products pursuant to the relevant on sale dates, it is of great importance for Customer Group A to secure a stable supply of toys in order to meet its obligations under its license agreements. In particular, the demands for licensed toys of Customer Group A are partly driven by promotion effects from the release of related series of animations or movies. Therefore, if there is a prolonged delay in the sales launch date of Customer Group A's licensed toys, it may adversely affect the popularity of the toys as the promotion effects from the related animations or movies would decrease over time after their release. Further, our ability to fulfil Customer Group A's product requirements and specifications for sophisticated ACG toys are acquired through our established working relationships with them. If Customer Group A intends to replace us with another ODM service supplier, it may take a prolonged trial period for such supplier to become familiar with their product requirements and specifications, which may lead to delay in the sales launch date of Customer Group A's products. Therefore, our Directors believe that it is not commercially viable to replace a long-term ODM service supplier, like our Group, by a new player, which might cause material disruption to its operation. As such, unless there are imminent unresolvable adverse factors, such as quality issue of the suppliers, unreasonable price offered by the suppliers or the incapability of the suppliers, our Directors are of the view that Customer Group A would normally prefer a stable ODM customer-supplier business relationship.

(vii) Our value-added services offered to Customer Group A

The development process of ACG figure toy is a customised process which includes prototype design, mould design and development, production planning and quality control. In order to make a ACG figure appealing to its fans, the ODM service provider has to be familiar with the objective product specifications, and also acquire certain understanding of the ACG character (such as its signature postures and appearances in the relevant animation or movies) in order to capture its likeness in the figure toys.

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Over the past decade, our Group has accumulated knowledge in a larger number of Japanese ACG characters as we design and develop figure toys for Customer Group A. In particular, we take pride in our ability to provide value-added services, which have distinguished our Group from other ODM service providers as well as contributed to our established relationships with Customer Group A. Our major value-added services include:

- recommendation on product design and choice of raw materials;
- advising on mixture and brightness of colouring;
- production of three-dimension design layout;
- decoupling the prototypes into multiple pieces for design of moulds;
- preparing of prototype; and
- technical advice on cutting and polishing.

We also closely monitor the production process of our toys and relevant moulds. For further details, please refer to the paragraph headed “Description of business operations — I. Sales of ODM toys — Operation flow” in this section.

Further, as at the Latest Practicable Date, Customer Group A together held more than 80 license rights on hand with Japanese licensors. As Customer Group A outsourced its major product design and development functions to our Group, it could reserve more of its management attention and resources for brand building and relationships development with Japanese licensors.

According to the F&S Report, an increasing number of Japanese figure toy brand owners are preferring to outsource their manufacturing and even designing process to offshore partners. In addition, F&S estimated that in the coming future, the figure toy brand owners will establish closer relationship with offshore manufacturers and focus more on accessing the copyrights of popular IPs and marketing in order to gain higher additional value.

Based on the findings of F&S Report, our Directors consider that our business relationships with the Customer Group A is in line with the industry norm where the Japanese figure toy licensee would focus on obtaining and managing its license rights, while relying more on its offshore partner to handle the design and development aspects of their products.

In view of the aforesaid, we believe that our Group has the ability to replicate our co-operation with Customer Group A in our development of our business relationship with other customers.

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While our Directors confirmed that our Group has no intention to limit ourselves to serving Customer Group A in the future, having taken into account the following factors and measures taken by our Group, our Directors consider that our reliance on Customer Group A would not affect our business prospect:

(i) Keep attracting more potential customers

Our long-term business relationship with Customer Group A can be regarded as a credit of our high quality services to other customers which in turn can attract more potential customers. In addition, Customer Group A has from time to time obtained license rights in popular Japanese ACG characters from renowned Japanese licensors. Based on our Directors' understandings, the Japanese licensors in general have stringent performance criteria for assessing the quality of licensed products. As such, our engagement with Customer Group A allows us to have exposure to providing ODM service in relation to licensed toys featuring Japanese ACG characters, and to obtain a deeper understanding of the requirements and quality standard of our customers, which has benefited us in enhancing the quality of our services and assessing our performance internally. We believe that by utilising similar standards in the provision of ODM service to Customer Group A, we are able to develop and customise our services for other customers.

(ii) Other ODM customers obtained during the Track Record Period

Our Group obtained business from two other ODM customers (namely Customer Group B and Customer G) during the Track Record Period. In 2015, we commenced to provide ODM service to Customer Group B which had obtained the license rights in various ACG characters from licensors based in the US. Customer Group B was one of five largest customers for each of the two years ended 31 March 2017. In 2014, we commenced to provide ODM service to Customer G. For each of the two years ended 31 March 2017, we have generated revenue of approximately HK\$7.0 million and approximately HK\$1.5 million from our ODM customers other than Customer Group A, respectively. Although the revenue generated from our other ODM customers was relatively limited, our Directors are of the view that having a business relationship with these two ODM customers can show as a credit of quality service to other ODM customers which in turn can attract more potential customers.

- (iii) Separation of Wing Co., Ltd. and Sentinel Japan as Customer Group A in foreseeable future

With regards to the Shareholdings Transfer in Sentinel Japan by the Common Shareholder on 10 January 2017 (as discussed in the paragraph headed “Customers — Relationship between Sentinel Japan and Wing Co., Ltd.” in this section), to the best knowledge of our Directors from their enquiries, the aforesaid share transfer from the Common Shareholder was agreed upon based on normal commercial negotiation between the parties thereto on an arm’s length basis.

As the aforesaid share transfer of Sentinel Japan was completed on 10 January 2017, there is no longer any overlapping of shareholders between Wing Co., Ltd. and Sentinel Japan, and hence our Directors consider that Sentinel Japan and Wing Co., Ltd. should no longer be grouped together as Customer Group A. Accordingly, based on our past revenue trends, our Directors expect that our reliance on our single largest customer will reduce significantly as our two largest Japanese customers are separated.

Our measures in reducing our reliance on Customer Group A

In order to reduce our reliance on Customer Group A, our Group had taken and will take the following measures in diversifying our revenue sources so as to generate revenue from potential customers other than Customer Group A:

- (i) *Exploring business opportunities with the licensors*

During the Track Record Period, as we started to develop additional lines of own licensed toys under the license rights granted by our licensors, we have explored potential business opportunities with the affiliates of Licensor A and Licensor C. In particular, during the nine months ended 31 December 2017, we have sold our own licensed toys (i.e. two series which were developed under our license agreement with Licensor A) to an affiliate of Licensor A (“**Affiliate A**”) (being the operator of a theme park and hotels in Hong Kong), who has been one of our top five customers during the same period. Further, in February 2018, we have received invitation for quotation from the Affiliate A for our ODM service in developing the mould and product design for a special edition of mini-toy car series for distribution in a Hong Kong theme park. This special edition of mini-toy car series is targeted at mass-market consumers as collectible items and is tailor designed for distribution for distribution in the Hong Kong theme park. Our Group and the Affiliate A are discussing the particular design and functional features of the mini-toy car series, as well as the details of mould production. Based on information currently available to us, the contract sum for the mould is expected to be approximately US\$65,000 and the preliminary sales quantity of the mini-toy car products is expected to be within the range of 2,000 to 5,000, amounting to amount to approximately US\$10,400 to US\$18,750. Such mini-toy car series is expected to be formally launched in the fourth quarter of 2018. We have subsequently provided our quotation to the Affiliate A, and their replies were still pending as at the Latest Practicable Date. If Affiliate A

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subsequently confirms its engagement with us, we expect that we do not have to obtain any additional license rights from the Licensor A for such mini-toy car series since we are not required to obtain any license rights in respect of our toy products developed on an ODM basis.

Our Directors consider our likelihood of obtaining the ODM purchase order for the aforesaid mini-toy car series from Affiliate A is high which is mainly because (i) based on the previous transactions of sales of own licensed toys with Affiliate A, our Directors consider that Affiliate A satisfies the quality of our products that Affiliate A approached our Group for this potential purchase order; (ii) our Group has relevant experience and is capable to produce the mini-toy car series due to a fact that our Group had previously developed similar mini-toy of other ACG characters under our license agreement with Licensor A which are currently still available for sale at Licensor A's theme park in Hong Kong; and (iii) the good business relationship between our Group and Affiliate A that our Group was invited to participate in a toy show organised by a group member of Licensor A at a shopping mall in Mongkok, Hong Kong in the end of March 2018. Our Directors believe that Affiliate A would prefer to engage a toy company who is capable and has previous experience in designing, developing and manufacturing similar products with Affiliate A based on its ACG characters for producing mini-toy car series for distribution in its Hong Kong theme park.

In addition, in May 2018, we have also received enquiry from another affiliate of Licensor A ("**Affiliate B**") being the operator of a theme park and hotels in Shanghai of the PRC for the potential sales of our own licensed toys for its distribution in its Shanghai theme park. As at the Latest Practicable Date, we have provided our indication of interest in making sales to the Affiliate B and were in the course of negotiation. If Affiliate B subsequently confirms its purchase of our own licensed toys, we expect that we do not have to obtain any additional license rights from the Licensor A since Affiliate B has indicated in its discussion with us that it would purchase those own licensed toys which have already been covered in our existing license agreements. Our Directors are positive about our prospect in obtaining purchase orders for our own licensed toys from Affiliate B. As mentioned above, since September 2016, Affiliate A has been sourcing our own licensed toys for distribution in its Hong Kong theme park. During the Track Record Period, our sales of own licensed toys to Affiliate A amounted to approximately HK\$2.3 million. Our Directors believe that our consistent sales relationship with the Affiliate A illustrates its endorsement on our products' quality and has a positive indication of the popularity of our own licensed products to local and overseas visitors at its theme park. Given that Affiliate B is under the same license brand of Licensor A, we believe that Affiliate B would be interested in sourcing products from us for sales to visitors at its Shanghai theme park.

During the period from the end of March 2018 to the end of April 2018, our Group was approached and invited to participate in a toy show organised by a group member of Licensor A at a shopping mall in Mongkok, Hong Kong, where we were invited to display and put our polygon figures for sale to the visitors at the toy show for the purpose of brand and product promotion. Our participation in the toy show has effectively boosted our sales of own licensed toy as we generated approximately HK\$1.2 million of revenue were generated by us from the retail sales at such toy show. Going forward, our Directors will continue to seek opportunities in participating in toy shows or other kinds of marketing events organised by Licensor A in order to reach out directly to wider group of end-consumers.

Given that Licensor A and its affiliates belong to a renowned US entertainment brand company, our Directors consider that our existing and potential cooperation with them as mentioned above has indicated its confidence in our design capability and product quality, and is likely to open up for further opportunities in making our own licensed toys available throughout their distribution channels.

In May 2018, we have entered into discussion with the retail development team of Licensor C for our marketing plan to distribute our “FLAME TOYS” brand toys in the US. As at the Latest Practicable Date, our Group and the retail development team of Licensor C were discussing on the potential distribution arrangements with its key sales partners in the US. Our Directors consider that if we could subsequently enter into cooperation with such sales partners in the US, our Group could further expand the distribution network of our own licensed toys and enhance our presences in the ACG toys market in the US.

(ii) Enhancing our distributorship network in geographical regions outside Japan

As at 31 March 2016 and 2017, our Group had a total of 42 and 52 distributors other than Customer Group A. For each of the two years ended 31 March 2017, our revenue derived from sale of imported toys and/or own licensed toys to our distributors other than Customer Group A amounted to approximately HK\$33.8 million, HK\$50.2 million, representing 89.8% and 94.6% of our sales to distributors, respectively. Our Directors consider that the increasing number of our distributors and the growing contribution from our distributors other than Customer Group A was primarily attributable to our active marketing efforts in introducing our new products to our existing and new distributors outside Japan as well as our participation in toy fairs and trade exhibitions in identifying potential distributors.

Since 1 January 2018 and up to the Latest Practicable Date, our Group has been in discussion with over 15 new distributors for potential cooperation in the future. These potential new distributors include wholesaler, retailers and online stores from different geographical regions including Hong Kong, Macau, the PRC, Taiwan, Brazil, Italy, France, Singapore, Thailand and the US. As at the Latest Practicable Date, we have provided the price schedule of our imported toys and own licensed toys to these distributors and will continue to discuss with them on the potential sales arrangements.

Going forward, we intend to establish three overseas representative offices in our sales territories including the US, Taiwan and Singapore, details of which are set out in the paragraph headed “Business strategies” above in this section. Such overseas representative offices are expected to, among others, enhance our promotion and sales efforts in those overseas territories, and allow us to more actively approaching and liaising with potential distributors in those territories for future cooperation. For instance, based on our local staff to be hired in the above territories, we could better assess the sales network of our potential distributors by visiting their physical retail stores. Further, with the support of our representative offices, we could also organize marketing events and participating in trade fairs and toy shows in such territories. Given that trade fairs and toy shows are a key channel for us in introducing our Group and our products to potential distributors, we plan to participate in more than four trade fairs and toy shows in the respective territories for each financial year following the establishment of our three representative offices.

Sustainability of our business

There is no guarantee that we can maintain our business relationship with Customer Group A in the future. Nevertheless, we believe that our business is sustainable based on the factors set out below:

(i) Development of our own licensed toys

Since 2013, Sentinel Hong Kong has started to cooperate with licensors of various renowned US entertainment brands and developed our own licensed toys based on ACG characters featuring in different animations’ and comics’ series. Our gross profit derived from sales of own licensed toys increased from approximately HK\$6.6 million for the year ended 31 March 2016 to approximately HK\$11.4 million for the year ended 31 March 2017, representing an increase of approximately 72.2%. Our Directors believe that our efforts in developing own licensed toys will allow us to expand our business while at the same time reduce our reliance on the sales of ODM toys.

(ii) Industry landscape

According to the F&S Report, it is typical practice of Japanese brand agencies to engage offshore ODM service suppliers (e.g. our Group) to supply products they require instead of sourcing from PRC toy manufacturers, and it is also a norm of Japanese brand agencies to maintain a long-term business relationship and develop mutual reliance with their offshore ODM service suppliers. Our Directors consider that Customer Group A shares such business culture that values long-term and stable business relationship with its ODM service supplier, and that the trust and loyalty of Customer Group A to us were built over years on our consistently satisfactory products and services.

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Based on the F&S Report, the Japan animation industry has in the past few years enjoyed and is expected in the coming years to enjoy a continuous growth. Further, the total retail value of the figure toy market in Japan is forecasted to increase from approximately Japanese Yen 35.1 billion in 2017 to approximately Japanese Yen 37.4 billion in 2022. Based on this forecasted trend, our Directors consider that, barring unforeseen circumstances, the sale of ACG toys will maintain growth, and our sales of ODM toys and own licensed toys will both benefit from this continuous positive prospect.

Further, based on the F&S Report, ODM service providers generally focus to serve a limited number of toy companies, and have high reliance on their major customers. The long established relationships between ODM service providers and toys licensees have become a barrier for new entrants to capture shares in the ACG figure toy product industry. Based on the industry experience of our Directors, and having made reference to comparable companies listed in the Stock Exchange in similar industry, our Directors consider that it is an industry norm for ODM service providers to place heavy reliance on a few major customers and the risk of reliance is not specific to our Group.

(iii) Inter-dependent relationship with Customer Group A

We and Customer Group A are inter-dependent in that: (i) Customer Group A were able to obtain the license rights in popular Japanese ACG characters from Japanese licensors; and (ii) Customer Group A relied on us to provide ODM service for the majority of its licensed toys. Pursuant to the ODM framework agreements, we are the first choice ODM service supplier of Customer Group A in providing one-stop ODM service for its licensed toys. We have also maintained a long and stable business relationship with Sentinel Japan and Wing Co., Ltd. without any interruption and we have not experienced material dispute with them so far. Our Group has already acquired sufficient understanding on the operation flow and products standards of Customer Group A. In this regard, it is economically and technically unreasonable for Customer Group A to replace our Group with another new ODM service supplier and face risk of interruption. Our Directors consider that it is a positive indication that Customer Group A would continue to engage our ODM service in the future.

(iv) Transferable skills

Our service model, distribution network and design capability are not specifically developed to cater solely for Customer Group A. In contrast, they are flexible and adaptable in serving different customers' needs. In the unlikely event that our current business relationship with Customer Group A deteriorates, we shall be able to avail our service capacity to serve other existing customers and new customers in a timely manner. Based on past experience, our Directors estimate that depending on customers' different needs and requirements, it would take approximately two to four months to complete the design and development of new products for serving new customers' orders and it does not incur significant costs for our Group to re-allocate our resources to serve new customers' orders. The preparation works required for serving new customers, which does not incur any significant costs, usually include fine-tuning our product development process to suit the individual customers' requirements and coordinating with new customers.

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- (v) Continue to expand the product portfolio of our own licensed toys

As discussed in the paragraph headed “Business strategies” in this section, we intend to expand the portfolio of our own licensed toys by developing new licensed toys based our available license rights in various ACG characters featuring in popular animations’ and comics’ series. Our Directors believe that such expansion in our business of own licensed toys can reduce our reliance on Customer Group A while maintaining the steady growth of our business at the same time.

- (vi) Market position and license rights of Customer Group A

Sentinel Japan ranked at the ninth place of the Japan ACG figure toy licensee market, with a market share of 3.9%. As at the Latest Practicable Date, Customer Group A together held more than 80 license rights on hand with Japanese licensors. The duration of such license rights held by Customer Group A generally ranges from one year to 2.5 years.

For Customer Group A, we have produced more than 75 types and 100 types of our ODM products for each of the two years ended 31 March 2017, respectively. Given the number of license rights currently held by Customer Group A, as well as the variety of our ODM toys produced for Customer Group A, our Directors are of the view that termination of any single license right held by Customer Group A will not have material adverse impact on the Group’ business operation and financial performance. For details of the associated risks of license termination on the part of Customer Group A, please refer to the section headed “Risk factors” in this prospectus.

In view of the current license rights portfolio of Customer Group A and the market position of Sentinel Japan in the Japan ACG figure toy licensee market, our Directors consider that Customer Group A will have continuous demand for our ODM services in the foreseeable future.

Collection of trade receivables

Our trade receivables as at 31 March 2016, 31 March 2017 and 31 December 2017 were approximately HK\$10.8 million, HK\$13.4 million and HK\$15.0 million, respectively.

In order to minimise the risks of delay or default in payment by customers, customer acceptance procedures are performed on all new customers including but not limited to (i) checking the internal record of our accounting department regarding payment history of the customer; and (ii) background search on history and reputation in case of new customers to ascertain their credibility. In the event any new distributors fail to pay on time or in full, we would withhold delivery of the products they have ordered and cease our business relationships with them.

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During the Track Record Period and up to the Latest Practicable Date, we did not experience any material difficulties in recovering trade receivables from our customers.

SUPPLIERS

Characteristics of our suppliers

Our suppliers primarily include (i) toy manufacturers based in the Dongguan City of the PRC; and (ii) licensees of our imported toys based in Japan and the US.

Toy manufacturers

We outsourced a range of manufacturing processes to our suppliers, mainly including (i) manufacturing of moulds, (ii) manufacturing, assembling, labelling and packaging of toys and related products, and (iii) other miscellaneous services including manufacturing of prototypes and product samples.

Licensees of imported toys

Our suppliers of imported toys mainly included overseas toy licensees based in Japan and the US. We purchased imported toy and related products from overseas toy licensees and subsequently resold them through our distribution platforms.

Please refer to the section headed “Financial Information” for a discussion of the fluctuation in our cost of sales during the Track Record Period as well as the relevant sensitivity analyses in this connection. During the Track Record Period, we did not experience any material shortage or delay in the supply of goods and services that we required.

Our Directors consider that we are generally able to pass on any substantial increase in our purchase and/or production costs to customers as we generally take into account, among other things, the quotation from suppliers before determining our pricing.

Principal terms of engagement

With toy manufacturers

We engage our toy manufacturers by placing purchase orders on case-by-case basis. We have not entered into any long-term agreement with our toy manufacturers, nor are we committed to making any minimum purchase amount from them. Our toy manufacturers are responsible for procuring raw materials required in the production at their own costs. They generally grant us a credit term of 30 to 60 days after the products are shipped to us. In relation to the moulds, our toy manufacturers generally require us to pay deposits for approximately 50% of the purchase price by the time we place the purchase orders. We generally settle payments to our toy manufacturers by bank transfer in US dollars. The products are typically shipped to us on the basis of free-on-board at Hong Kong.

With licensees of imported toys

We make purchase from licensees of imported toys by placing purchase orders on case-by-case basis. As at the Latest Practicable Date, we have distributorship agreements with three overseas licensees, details of which are set out below in this paragraph. Save as these distributorship agreements, we have not entered into any long-term agreement with the licensees of imported toys, nor are we committed to making any minimum purchase amount from them. The licensees of imported toys generally grant us a credit terms of 30 to 60 days after the products are shipped to us. We generally settle payments to the licensees of imported toys in Japanese Yen or US dollar. The imported toys are generally shipped to us on the basis of free-on-board at Hong Kong.

Distributorship agreements with our licensees of imported toys

The following table sets out the major terms of distributorship arrangements with our licensees of imported toys as at the Latest Practicable Date:

	Distributorship agreements with Sentinel Japan, Supplier F and Supplier G	Purchase orders placed to other licensees
Duration	<p>The term of the distributorship agreements shall be for an initial period of five years commencing from (i) 1 January 2017 for Supplier F and Supplier G; and (ii) 19 February 2017 for Sentinel Japan.</p> <p>Our Group shall have an option, exercisable by giving at least six months' notice in writing to the relevant licensee prior to the expiration of the initial term, to renew the distributorship agreement for another five years.</p>	<p>The term is not provided in the purchase orders.</p>
Geographical scope	<p>Our Group is authorised to sell, promote, market and distribute the products sourced from the licensee in (i) anywhere in the world for Supplier F and Supplier G; and (ii) anywhere in the world except Japan for Sentinel Japan.</p>	<p>The other licensees do not impose any restrictions on the geographical areas where we sell, market and distribute their licensed products.</p>

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	Distributorship agreements with Sentinel Japan, Supplier F and Supplier G	Purchase orders placed to other licensees
Distributorship nature	Exclusive	Non-exclusive
Product return policy	The licensee does not accept any product return from our Group, except for repair or replacement of defective products.	The purchase orders do not contain any product return policy. In practice, the licensees would arrange for repair or replacement of defective products for us, where applicable.
Minimum/maximum purchase amount	Not applicable	Not applicable
Termination	The licensee shall be entitled to terminate the distributorship agreement immediately if, among other things, our Group is in breach of any terms therein or is subject to any insolvency, bankruptcy or other arrangements with creditors.	Not applicable

Save as disclosed in the above table, there is no material difference between our terms of engagement with Sentinel Japan and our other licensees of imported toys.

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Top suppliers

For the year ended 31 March 2016

Rank	Supplier	Principal business activities	Type of goods or services purchased by us from the supplier	Year(s) of business relationship	Typical credit terms and payment method	Purchases by us from the supplier	
						HK\$'000	%
1	Supplier A1 and A2 (being members of Supplier Group A)	PRC manufacturer of toys, moulds and related products	Mainly ODM toys, own licensed toys and moulds	Supplier A1: Since 2012 Supplier A2: Since 2010	Supplier A1: 30 to 60 days; by bank transfer/cheque/cash Supplier A2: 30 to 60 days; by cheque	49,896	54.1
2	Sentinel Japan and Supplier C2 (collectively referred to as "Supplier Group C") (Note)	Sentinel Japan: Wholesaler of toys in Japan Supplier C2: Wholesaler of toys	Mainly imported toys	Sentinel Japan: Since 2013 Supplier C2: Since 2016	Sentinel Japan: 60 days; by bank transfer Supplier C2: 30 days; by bank transfer	14,388	15.6
3	Supplier B	PRC manufacturer of toys, moulds and related products	Mainly ODM toys	Since 2015	30 to 60 days; by cheque/cash	13,793	15.0
4	Supplier D	PRC manufacturer of toys, moulds and related products	Mainly moulds	Since 2014	30 to 60 days; by cheque/cash	5,794	6.3
5	Supplier E	PRC manufacturer of toys, moulds and related products	Mainly ODM toys	Since 2014	30 to 60 days; by cheque/cash	3,631	3.9

Note: Sentinel Japan and Supplier C2 have a common shareholder and a management member at the material time.

BUSINESS

For the year ended 31 March 2017

Rank	Supplier	Principal business activities	Type of goods or services purchased by us from the supplier	Year(s) of business relationship	Typical credit terms and payment method	Purchases by us from the supplier	
						HK\$'000	%
1	Supplier A1, A2 and A3 (collectively referred to as "Supplier Group A") ^(Note)	PRC manufacturers of toys, moulds and related products	Mainly ODM toys, own licensed toys and moulds	Supplier A1: Since 2012 Supplier A2: Since 2010 Supplier A3: Since 2016	Supplier A1: 30 to 60 days; by bank transfer/cheque/cash Supplier A2: 30 to 60 days; by cheque Supplier A3: 30 days; by cheque/cash	46,587	48.9
2	Supplier Group C	Sentinel Japan: Wholesaler of toys in Japan Supplier C2: Wholesaler of toys	Mainly imported toys	Sentinel Japan: Since 2013 Supplier C2: Since 2016	Sentinel Japan: 60 days; by bank transfer Supplier C2: 30 days; by bank transfer	16,576	17.4
3	Supplier E	PRC manufacturer of toys, moulds and related products	Mainly ODM toys	Since 2014	30 to 60 days; by cheque/cash	11,412	12.0
4	Supplier B	PRC manufacturer of toys, moulds and related products	Mainly ODM toys	Since 2015	30 to 60 days; by cheque/cash	7,043	7.4
5	Supplier D	PRC manufacturer of toys, moulds and related products	Mainly moulds	Since 2014	30 to 60 days; by cheque/cash	6,546	6.9

Note: Supplier A1 and A2 have a common management at the material time. Supplier A1 and A3 have a common address at the material time.

BUSINESS

For the nine months ended 31 December 2017

Rank	Supplier	Principal business activities	Type of goods or services purchased by us from the supplier	Year(s) of business relationship	Typical credit terms and payment method	Purchases by us from the supplier	
						HK'000	%
1	Supplier Group A	PRC manufacturers of toys, moulds and related products	Mainly ODM toys, own licensed toys and moulds	Supplier A1: Since 2012 Supplier A2: Since 2010 Supplier A3: Since 2016	Supplier A1: 30 to 60 days; by bank transfer/cheque/cash Supplier A2: 30 to 60 days; by cheque Supplier A3: 30 days; by cheque/cash	33,917	50.2
2	Supplier E	PRC manufacturer of toys, moulds and related products	Mainly ODM toys	Since 2014	30 to 60 days; by cheque/cash	7,383	10.9
3	Supplier B	PRC manufacturer of toys, moulds and related products	Mainly ODM toys	Since 2015	30 to 60 days; by cheque/cash	6,595	9.8
4	Supplier Group C	Sentinel Japan: Wholesaler of toys in Japan Supplier C2: Wholesaler of toys	Mainly imported toys	Sentinel Japan: Since 2013 Supplier C2: Since 2016	Sentinel Japan: 60 days; by bank transfer Supplier C2: 30 days; by bank transfer	5,957	8.8
5	Supplier D	PRC manufacturer of toys, moulds and related products	Mainly moulds	Since 2014	30 to 60 days; by cheque/cash	4,798	7.1

None of our Directors, their close associates, or any Shareholders who owned more than 5% of the number of issued shares of our Company as the Latest Practicable Date had any interest in any of the five largest suppliers of our Group during the Track Record Period.

Supplier concentration

For each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, the percentage of our total purchase from our largest supplier amounted to approximately 54.1%, 48.9% and 50.2% of our total purchases, respectively, while the percentage of our total purchase from our five largest suppliers combined amounted to approximately 94.9%, 92.6% and 86.8% of our total purchase, respectively. Despite such supplier concentration, our Directors consider that we are not overly reliant on any single supplier because:

In relation to toy manufacturers

(i) Established relationships

Our Group is a major long-term customer of toy manufacturers (including Supplier Group A and Supplier D) in terms of revenue. These major toy manufacturers had long-standing business relationship with us for over seven years. In view of our established business relationships with our major toy manufacturers, our Directors are of the view that our Group will be able to continue our business relationships with them in the future.

(ii) Mutual and complementary reliance

Our Group plays a crucial role in providing our major suppliers with access to orders for the toys of various overseas toy companies (being toy licensees or toy intermediaries). Our major toy manufacturers confirmed that they do not have any in-house design and development team, and the key responsible persons of these suppliers are not fully conversant in Japanese or English. Our major suppliers (including Supplier Group A, Supplier B and Supplier E) confirmed that the revenue derived from our Group had accounted for approximately 30% to 70% of their total revenue for the two years ended 31 March 2017. Our Directors believe that due to language barrier and lack of sufficient product design capability and quality control capability of our suppliers, it would be very difficult for them to effectively communicate with or to meet the product requirements of the overseas toy licensees.

(iii) Availability of alternative suppliers

In the long run, we intend to engage other new suppliers which satisfy our requirements on product quality and possess established market reputation. As at the Latest Practicable Date, we have shortlisted three suppliers in the Dongguan City of the PRC for manufacturing services. Therefore, we believe that it would not be difficult for us to diversify our supplier base by identifying alternative suppliers that satisfy our requirements.

BUSINESS

In the event that any of our major suppliers ceases to serve us, we will seek to engage our other existing suppliers and/or new suppliers in the Dongguan City to take up the orders intended for the ceasing partner. Our Directors consider that the toy manufacturers in the Dongguan City generally operate in similar business environment, and are subject to similar major cost items including costs of raw materials and labour costs. Therefore, we believe that alternative suppliers in the Dongguan City would be readily available to provide manufacturing services on similar terms to our Group.

In relation to licensees of imported toys

(i) Mutual and complementary reliance

Sentinel Japan had leveraged on our diverse distribution platforms (which mainly comprise local and overseas distributors and various retail sales channels) outside Japan. In particular, as discussed in the paragraph headed “Suppliers — Principal terms of engagement” above in this section, Sentinel Japan has appointed us as its exclusive product distributor outside Japan since 19 February 2017. By appointing us as its distributor outside Japan, Sentinel Japan has saved time and cost involved in building up its own retail channel outside Japan and avoided the administrative works in liaising with overseas distributors. In view of the aforesaid, our Directors believe that Sentinel Japan would continue to rely on us in reselling its products outside Japan in the foreseeable future.

(ii) Availability of alternative suppliers

During the Track Record Period, our Group had purchased imported toys from a wider pool of toy licensees. Apart from Supplier Group C, we had sourced imported toys from six, six and three toy licensees for each of the two years ended 31 March 2017 and the nine months ended 31 December 2017 respectively. This illustrates our ability to source imported toys from suppliers other than Supplier Group C. Further, in addition to Sentinel Japan, Supplier F and Supplier G (both being toy licensees in Japan) had entered into long-term exclusive distributorship agreements with us for territories worldwide, details of which are set out in the paragraph headed “Suppliers — Principal terms of engagement” in this section. For each of the two years ended 31 March 2017, our revenue attributable to products sourced from Supplier F amounted to approximately HK\$3.7 million and HK\$3.1 million, while our revenue attributable to products sourced from Supplier G amounted to approximately nil and HK\$1.7 million, respectively. Our Directors believe this indicates the confidence of these two suppliers in our distribution network outside Japan.

Reasons for outsourcing production

As we do not possess our own production facilities, we outsource the production, labelling and packaging of products to our suppliers on order-by-order basis. As compared with operating our own production facilities in the PRC, our Directors consider that it is relatively more cost-effective to outsource the production works to our suppliers because, among other things (i) substantial costs and other overhead costs (including but not limited to labour costs and machinery maintenance costs) would have to be incurred for establishing a toy manufacturing factory, and (ii) the operation of a manufacturing factory in the PRC would require significant management attention and involve compliance requirements in relation to PRC laws and regulations. Hence, our Directors decided that it would be in the best interest of our Group to focus on maintaining our strengths in product design and quality control.

Basis of selecting toy manufacturers

While we outsource the production processes to our suppliers, we are liable for any defects found in our products. Therefore, we adopt stringent measure in selecting our toy manufacturers. We maintain an internally approved list of toy manufacturers, which is subject to our regular review. We evaluate these suppliers based on their product quality, production capacity, technical capability and ability in meeting our delivery schedule. In identifying potential suppliers, our senior management will generally peruse their corporate documents, perform physical inspection at their production premises and require them to submit product samples for review.

Currently, all of our own licensed toys are manufactured at the facilities of Supplier A1. Pursuant to the requirements under our current license agreements, our Group has notified each of Licensor A, Licensor B and Licensor C before we planned to outsource the manufacturing process of own license licensed toys to Supplier A1. Under our current license agreements, none of our licensors has designated us to engage any particular manufacturing supplier when we outsource the manufacturing process of our licensed toys.

QUALITY CONTROL

We believe that our commitment to product quality and safety is one of principal factors contributing to our success. We place strong emphasis on product quality and safety by implementing a comprehensive quality control system in order to maintain our competitive edge. As at the Latest Practicable Date, we had three members in our quality control team.

Raw materials

While we do not designate any particular source of procurement for our suppliers, we generally impose certain specifications and requirements for the raw materials that they used in production. All plastic materials deployed are required to meet food-grade standard. We also request suppliers to submit test report on the safety standards of raw materials (such as PVC grain and paints) issued by independent certification bodies such as SGS-CSTC Standard Technical Service Co., Ltd. The key material used by our suppliers in manufacturing ACG figures is PVC grain. For further details about the historical price trend of PVC in the PRC, please refer to the paragraph headed “Industry Overview — Price trends of major raw material cost” in this prospectus.

Production process

We regularly assigned staff to the production premises of our suppliers to monitor the production process. We may provide advice to our suppliers throughout the production process on matters including paint-mixing, design and composition of project moulds, management of production schedule.

Final products

Our suppliers will cooperate with our assigned staff to conduct quality check on samples of the final products based on our in-house testing method which covers various aspects of the products, including (i) assembling, (ii) spraying and colouring, (iii) sharpness of point, (iv) overall functioning, and (v) positioning and conditions of the parts and components, etc. We would require our suppliers to submit their internal inspection reports for our reference. In order to ensure to product safety, samples of the final product would also be submitted by us to independent laboratories for testing purpose.

MOULD DEPLOYED IN TOY MANUFACTURING

Safekeeping of moulds

The moulds represent valuable assets to our ODM customers and our Group in relation to own licensed products because substantial investment cost is involved. Further, if there is any theft, loss and misuse of the moulds, it could possibly lead to potential claims against our customers and/or our Group for breach of license agreements.

BUSINESS

In view of the aforesaid, we have collaborated with our suppliers in implementing the following measures for the safekeeping of moulds:

- We obtained written undertakings from our suppliers to the effect that they would not deploy the moulds kept by them unless they have obtained our written consents in advance.
- Our senior management team visits our suppliers' premises to check up the status of the moulds from time to time.
- The moulds are placed at locked storage areas at our suppliers' premises and the keys to such lockage is kept by Mr. Li only. Real-time CCTV-cameras were installed to allow us to monitor such areas.
- Security guards are stationed at the premises round-the-clock.
- All sign-in or sign-out by visitors or workers were recorded by the suppliers.

Depreciation and disposal methods

The moulds of our own licensed toys are subject to depreciation using the straight-line method to allocate their costs to their residual values over the licensed period of such toys. After expiry of the relevant licensed periods, we may instruct our suppliers to destroy and dispose of the moulds for confidentiality and require them to provide us with evidence of the disposal for our record.

During the Track Record Period and up to the Latest Practicable Date, our Group has not experienced any material incident of theft, loss or misuse in relation to our moulds. We have maintained product insurance for all of our moulds as at the Latest Practicable Date.

RESEARCH AND DEVELOPMENT

During the Track Record Period and up to the Latest Practicable Date, we did not engage in any research and development activity except for product design and development works undertaken by us.

SALES AND MARKETING

For a breakdown of our revenue during the Track Record Period by the geographical locations of our customers, please refer to the section headed "Financial information — Management discussion and analysis" in the prospectus.

Relationship with ODM customers

Our customers of ODM toys are generally recurring customers with long-term business relationships with us. It is our business strategy to serve these customers on a priority basis in order to maintain stable and long-term relationship with them. We maintain regular contacts with customers by way of tele-communications between our in-house design and development team and representatives of our customers and visits by our senior management team to our customers' offices in Japan to discuss market updates and potential business opportunities.

Retail distribution platforms

Our retail distribution platforms include our online store and flagship store located in Hong Kong. Our online store came into operation in 2012, targeting online customers locally and worldwide, while our flagship store was established at Mong Kok, Hong Kong, in 2015, aiming at providing local shoppers with opportunities to enjoy first-hand preview of our products. Our popular and new imported toys and own licensed toys are put on display at the showcase of our flagship store. For each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, our revenue attributable to our online store and flagship store was approximately HK\$2.3 million, HK\$4.8 million and HK\$2.7 million, respectively.

Pre-ordering process

To have a better grasp of the market response, we may launch a pre-ordering process whereby product details and sales information will be provided to our distributors and published at our online store and flagship store in Hong Kong for inviting pre-orders during this period. During the pre-ordering process, retail customers at our flagship store are generally required to (i) pay a deposit for approximately 50% of the total purchase price; and (ii) pay the remaining amount before the products are delivered to them, while our retail customer who purchased through our online store are generally required to make full payment for the total purchase price by the time they placed the purchase orders.

We generally conduct pre-ordering process for toy products at a higher price range. The pre-ordering leaflet generally contains information including product photos and basic descriptions, size and materials of product, special features or functions, related accessory parts, product packaging, pre-ordering period, formal launch date, retail prices, and shipping terms. The pre-ordering process will commence around eight to ten weeks prior to the commencement of production of our own licensed toys or before we place orders for the imported toys. The pre-ordering process generally last for approximately four to five weeks.

Marketing measures

During the Track Record Period, we participated in toy exhibitions and trade fairs in various regions such as Hong Kong, Taiwan, Singapore and the United States, at which we display our toys and related products therein and introduce the corporate profile of our Group to visitors. For each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, our revenue attributable to sales at toy exhibitions and trade fairs was approximately HK\$3.3 million, HK\$6.7 million and HK\$4.8 million, respectively.

We have also set up a social media platform to provide online visitors with constant update of information about our latest products.

Our distributor network

During the Track Record Period, a significant portion of our revenue were derived from sales to distributors in Hong Kong and overseas markets such as the PRC, Japan, the US and Taiwan, etc. For each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, revenue derived from sale of imported toys and/or own licensed toys to our distributors amounted to approximately HK\$31.9 million, HK\$40.0 million and HK\$24.6 million, representing approximately 25.9%, 29.2% and 26.2% of our total revenue for the corresponding periods, respectively. Please refer to the paragraph headed “Customers — Characteristics of our customers” in this section for a breakdown of our revenue derived from our distributors by product type during the Track Record Period.

Based on the F&S Report, our Directors consider that it is a common market practice for toy companies in the ACG figure toy industry to distribute licensed ACG toys in local and overseas market through distributors. Further, we are aware that some of our distributors also sell toy products of similar nature from other brands.

Our Directors also believe that sale to overseas distributors has allowed our Group to expand our customer base and increase our market presence internationally. In particular, we can take advantage of the established sales network and market intelligence of our distributors which have competitive advantages in terms of language and knowledge in the culture, demographics and shopping behaviour of the overseas markets. Sentinel Japan (being our distributor in Japan) confirmed that it generally on-sold our products to its sub-distributor based in Japan, namely Supplier G, (as further discussed below), whereas Customer F primarily resold our products to a distributor (namely Customer E) and retailers in Taiwan (as further discussed below). Save as the aforesaid, our other major distributors generally on-sold our own licensed toys to retailers or, by a lesser extent, to end-consumers in their respective territories.

BUSINESS

Selection of distributors

We made acquaintance with potential distributors through participating in various toy fairs and trade exhibitions. On some occasions, distributors may approach us through our website and/or social media platform. We select distributors strictly based on their sales network and management experience, branding and marketing capabilities, reputation, quality of customer services and market coverage in our intended territories for sale.

Control over distributors

Our control measures over our distributors are primarily set out in the distributorship agreements with Sentinel Japan, Customer D and certain overseas distributors. Please refer to the paragraph headed “Customers — Principal terms of engagement” above in this section for further details.

In order to discourage our distributors from parallel importing our products into other sales territories, our Group has generally adopted a uniform wholesale pricing for the same product across all of our sales territories, subject to certain price discounts to our distributors in the case of bulk orders of purchase.

Our Directors consider that the potential abuse by our distributors may involve principally making unauthorised changes to the trademark of our own licensed toys bearing our toy brands. In view that a significant proportion of our distribution sales are principally made to overseas distributors and could involve sub-distributor and retailers, for which our Group has no direct contractual relationship, our Directors are of the view that the implementation of further controls at the current stage could involve costs and expenses disproportionate to the benefits that could reasonably be obtained from such controls.

Turnover rate of distributors

The turnover rate of our distributors for each of the two years ended 31 March 2017 was approximately 25.0% and 25.6%, respectively. The table below sets out the movements in the number of our distributors for each of the two years ended 31 March 2017^(Note):

	For the year ended 31 March	
	2016	2017
Opening balance as at the beginning of the relevant year/period	44	43
Additions	10	21
Termination/expiration	11	11
Total number of distributors as at the end of the relevant year/period	43	53

Note: The number of our distributors is determined with reference to the purchase order(s) placed with our Group by the relevant distributors in a particular financial year.

BUSINESS

In each of the two years ended 31 March 2017, the turnover rate of our distributors has remained stable. In each of the two years ended 31 March 2017, we have 11 and 11 departed distributors whose business relationships with us have terminated or expired (as compared to the immediately preceding financial year), respectively. The 11 departed distributors in the year ended 31 March 2016 had contributed HK\$1.5 million of revenue to us in the year ended 31 March 2015 based on our unaudited financial figures, while the 11 departed distributors in the year ended 31 March 2017 had contributed HK\$1.9 million of revenue to us in the year ended 31 March 2016. In view of the limited revenue contribution from these departed distributors, our Group did not consider them to be our major distributors in the two years ended 31 March 2017. Therefore, our Directors consider that the loss of our departed distributors in the two years ended 31 March 2017 does not have material impact on the sustainability of our business.

The 11 distributors, which departed in the year ended 31 March 2016, had individually contributed revenue ranging from approximately HK\$4,000 to HK\$0.5 million to us in the year ended 31 March 2015, while the majority of them individually contributed less than HK\$0.2 million to us. The 11 distributors, which departed in the year ended 31 March 2017, had individually contributed revenue ranging from approximately HK\$5,000 to HK\$0.8 million to us in the year ended 31 March 2016, while the majority of them individually contributed less than HK\$0.5 million to us. The revenue contribution from the aforesaid distributors were relatively small in scale and their purchases from our Group were mainly occasional in nature. During the Track Record Period and up to the Latest Practicable Date, our Group had not recorded any complaints or product quality issues from these departed distributors, and most of them had not entered into any distributorship agreements with us in the past. As such, our Directors consider that the departure of such distributors was primarily due to various factors relating to their own business operations, including sales strategies, product portfolio and target consumer groups.

In each of the two years ended 31 March 2017, we have ten and 21 additional distributors with revenue contribution to our Group (as compared to the immediately preceding financial year), respectively. The ten additional distributors in the year ended 31 March 2016 had contributed approximately HK\$1.8 million to us, while the 21 additional distributors in the year ended 31 March 2017 had contributed approximately HK\$7.3 million of revenue to us. One of the additional distributors in the year ended 31 March 2017 was Customer F which had contributed approximately HK\$3.3 million to our revenue in the same year. Customer F confirmed that it primarily resold our products to a distributor (namely Customer E) and retailers in Taiwan. Customer E confirmed that it had sourced our products from Customer F (instead of purchasing them directly from our Group) because such products could then be grouped with the other toys that it purchased from Customer F for bulk delivery to Taiwan (the “**Bulk Delivery Arrangement**”). As Customer E had increasingly relied on the Bulk Delivery Arrangement in procuring our products, the amount of its direct purchase from our Group decreased from approximately HK\$3.4 million for the year ended 31 March 2016 to approximately HK\$0.5 million for the year ended 31 March 2017. Customer E had ceased to make any direct purchase from us since October 2016. Customer E confirmed that they have been satisfied with the quality of our products since the commencement of business relationship with our Group, and that the cessation of direct purchase from us was solely because of their internal management and was not attributable to any quality issue of our products.

BUSINESS

For the nine months ended 31 December 2017, we have recorded sales to a total of 57 local and overseas distributors, with 18 additional distributors (as compared to the year ended 31 March 2017) who had contributed approximately HK\$1.6 million of revenue to us in the nine months ended 31 December 2017.

Goods return arrangements

We do not allow our distributors to return any products sold to them except due to product defects. Our Directors confirmed that we have not experienced any material incident of product return from our distributors during the Track Record Period and up to the Latest Practicable Date.

Revenue recognition and accounts receivables

We have seller-buyer relationships with all of our distributors. We retain no ownership control over the products sold to our distributors. Revenue from the sales to distributors is recognised when the risks and rewards of ownership of the products are transferred outright to our distributors.

For details about our payment terms and credit terms with our distributors, please refer to the paragraph headed “Customers — Principal terms of engagement” in this section.

Independence of distributors

According to information publicly available as at the Latest Practicable Date, all of our distributors were independent third parties. Two of the founders of Sentinel Japan were former shareholders of Sentinel Hong Kong since its incorporation up to 12 August 2009. For details, please refer to the section headed “History, Reorganisation and Corporate Structure” in this prospectus.

Our Directors are not aware of any distributors were previous employees of our Group or sales partners who trade under our Group’s name. Further, we have not employed any overseas sales representatives. While we are aware that Sentinel Japan has applied the “SENTINEL/千值練” brand for the development, marketing and distribution of its licensed toys in Japan, Sentinel Japan is not acting as our sales representative, nor are they holding themselves out as our sales agent. For further details about our business relationships with Sentinel Japan, please refer to the paragraphs headed “Customers — Our relationship with Sentinel Japan” and “Customers — Arrangements on the use of “SENTINEL/千值練” brand” in this section.

BUSINESS

Relationship with Sentinel Japan as our distributor and its sub-distributor

Sentinel Japan has acted as our sole distributor in Japan since 2013, and the first sales of our own licensed toys to Sentinel Japan was made in 2014. Our revenue derived from sales of own licensed toys to Sentinel Japan amounted to approximately HK\$3.9 million, HK\$2.8 million and HK\$2.4 million for each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, respectively. As Sentinel Japan did not operate any retail outlets in Japan, all of the toys products purchased from us were subsequently resold to another wholesaler in Japan, namely Supplier G, which is also one of our imported toy suppliers, during the Track Record Period.

Supplier G became acquainted with our Group by way of introduction by Sentinel Japan. As Supplier G intended to engage a distributor for reselling its licensed toys outside Japan, it had engaged our Group as a distributor of its own licensed toys in May 2016 and subsequently appointed us as its exclusive distributor in worldwide territories since January 2017. For further details, please refer to the paragraph headed “Suppliers — Principal terms of engagement” above in this section.

Supplier G confirmed that it had placed purchase orders with Sentinel Japan on case-by-case basis, and it did not have any long-term purchase commitment with Sentinel Japan. Our own licensed toys that had been sold to Supplier G by Sentinel Japan were generally on-sold on approximately 20 to 30 wholesalers in Japan. Supplier G confirmed that it was not aware of any excessive inventory of our own licensed toys among its customers.

During the year ended 31 March 2017, we purchased one series of ACG figures from Supplier G (“**Licensed Figures**”) that had been previously sold by us to Sentinel Japan on ODM basis. Supplier G (as licensee of the Licensed Figures) engaged Sentinel Japan (as intermediary) to source the Licensed Figures from offshore ODM service supplier. Sentinel Japan, in turn, engaged us to produce the Licensed Figures on ODM basis. Our Group, being the worldwide distributor of Supplier G, had subsequently purchased the Licensed Figures from Supplier G for resale.

Supplier G confirmed that it decided to engage Sentinel Japan as intermediary to source the Licensed Figures because (i) Supplier G was confident in the quality of products sold by Sentinel Japan; and (ii) the Licensed Figures required the use of a special type of painting material that had been used previously in the licensed toys of Sentinel Japan. Hence, Supplier G believed that Sentinel Japan would be familiar with sourcing requirements for the Licensed Figures.

Further, since September 2010, Supplier G (as distributor) had continuously purchased licensed toys from Sentinel Japan (as licensee) for resale. Based on their established business relationships, Supplier G acquired understandings of Sentinel Japan’s ability in (i) sourcing ACG figures from selected offshore toy company; (ii) conducting quality control and checking on ACG figures sourced from overseas; and (iii) overall cost control and production scheduling for ACG figures. As Supplier G obtained license rights for the Licensed Figures, it therefore relied on Sentinel Japan (as an intermediary) to source the required products, instead of sourcing them from overseas directly.

BUSINESS

Given that Supplier G was licensee of the Licensed Figures and had appointed our Group as its exclusive worldwide product distributor, it had consulted our Group on the expected product demand for the Licensed Figures outside Japan. Based on the results from our pre-ordering, our Group had subsequently placed a purchase order with Supplier G for the Licensed Figures (totalling approximately HK\$0.3 million) for resale.

Save as the aforesaid, our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, none of our imported toys purchased from Supplier G include any of the ODM toys or own licensed toys previously sold by our Group.

Risks of over-competition among distributors

Our imported toys and own licensed toys are primarily sold to distributors in our major sales territories including the PRC, the US, Japan, Hong Kong, Taiwan and Singapore. During the Track Record Period, we had no more than three major distributors (i.e. each with revenue contribution above HK\$0.5 million) in each of our sales territories (except Hong Kong). In view of the limited number of significant distributors in these major territories, our Directors consider that risks of over-competition among our distributors are relatively low.

During the Track Record Period, we had recorded sales to a relatively larger number of distributors in Hong Kong as compared to our other major sales territories. Nevertheless, our Directors consider that the risk of over-competition among our distributors in Hong Kong is not material because (i) part of our distributors possess direct retail outlets which are located in different geographical locations in Hong Kong; and (ii) parts of our sales to these distributors were made in form of pre-order sales. Except for a few distributors which have reliable payment records or established business relationships with us, we generally require other Hong Kong distributors to settle full payment for the pre-orders before the products are delivered to them. Our Directors consider this arrangement ensures that our distributors would adopt a conservative attitude in placing pre-orders with us after assessing the actual demand of their respective customers. It would therefore minimise the risk of channel stuffing potentially arising from competition among our various distributors in Hong Kong.

In relation to Sentinel Japan, Customer D and certain other distributors with insignificant revenue contribution to us, our Group has, through our respective formal distributorship agreements, required them to distribute our products only in their respective permitted territories.

In relation to our distributors which had not entered into any distributorship agreement with our Group, since May 2017, our Group has included provisions in our quotation to our major distributors, pursuant to which (i) the distributors are forbidden to distribute our products outside the respective territories in which they were based, unless our prior written consent has been obtained; and (ii) if our Group is aware that our products purchased by our distributors are sold outside the permitted territories, the relevant distributors shall be liable for breach of term under such quotation and/or invoice. Accordingly, our Directors are of the view that adequate measures have been taken to minimise the potential risk of over-competition among our distributors.

Inventory risks

We generally require new distributors to make full payment before the products are shipped to them. We believe such payment policy encourages our new distributors to take a more conservative approach in making purchase from us and avoid accumulation of excess inventory. Some of our major distributors confirmed that the inventory balance of our products held by them as at 31 March 2017 was below 15% of their respective purchase amount from our Group during the two years ended 31 March 2017. Therefore, our Directors are of the view that there was no material accumulation of inventories at the level of our distributors.

During the Track Record Period, our Group did not request any inventory report from our distributors for the reason that our Group has a seller-buyer relationship with its distributors and our products were sold to them on the basis of outright sales. Nevertheless, to further enhance our overall monitoring the sales of our products on the level of our distributors, since May 2017, our Group had adopted the following policies to minimise the risk of channel stuffing for our products:

- our Group shall perform enhanced due diligence enquiries to the prospective distributors including their financial strength and their experience in the toy industry, and require all new distributors to confirm as to their intended territories for sales and anticipated volume of annual purchases to identify potential competition against our existing distributors located in the targeted territories. Where the potential exposure to channel stuffing is assessed as excessive, we shall decline to any make sales to such prospective candidate as our distributor;
- our Group will make annual inquiry, through its distributors, as to the indications of excessive inventory accumulation on the end side of the major customers of our distributors; and
- our Group has included provisions in our quotation and/or invoice to our major distributors, pursuant to which our Group is entitled to obtain quarterly report from the distributors as to slow movement of our products as identified by such distributors and the amount involved in these slow-moving items. If slow-moving items are identified, our Group will investigate the reasons behind and, where necessary, temporarily cease selling our products to distributors in the relevant territories.

Consignment sales arrangements

During the Track Record Period, we engaged a total of eight consignees mainly comprising a shopping arcade located in Tsim Sha Tsui, two Hong Kong-based department store chains, a renowned toy store chain and a convenience store chain in Hong Kong, and our revenue from consignment sales arrangements amounted to approximately HK\$0.1 million, HK\$1.5 million and HK\$0.6 million for each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, respectively. All of our consignees are independent third parties.

The principal terms of our major consignment sales arrangements are summarised as follows:

Consignment Fee	The consignment fee is generally based on a fixed percentage of proceeds from sales of our products or a fixed monthly fee.
Duration	The term is generally for a fixed period, ranging from two months to one year.
Our obligations	We are required to maintain a full range and adequate stock of the specified products to meet the demand of the consignees' customers.
Consignee's obligations	The consignee is generally responsible to: <ul style="list-style-type: none"> (i) provide us a designated space in their outlets to display, promote and advertise our products; (ii) return us the sales proceeds of our products within the time period stipulated after deducting the consignment fee payable by us; and (iii) inform us if there is need for replenishing stock of the product.
Sales and pricing policy	The consignees do not impose any control over the retail price of our products.
Payment and credit terms	Based on the monthly statement of sales from the consignee, our Group will prepare invoices or confirmations in relation to the amount due from the consignee. After deducting the relevant consignee fee, the consignee will then arrange payment to our Group within a specified period.

BUSINESS

Ownership of the stock	Products stocked up at the consignee's premises remain our properties and we carry the risk of any incidental loss or damages to such products until they are sold.
Goods return and obsolete stock arrangement	Upon expiry of the term, we are responsible for removing the remaining unsold stock of products.
Sales and expansion targets	Not applicable
Minimum/maximum purchase amounts	Not applicable
Conditions for terminating and renewing the agreement	Depending on the terms of the agreement, either party may terminate the consignment sales arrangement by written notice of one month.
Sales and inventory reports	<p>The consignee is generally required to issue a monthly statement to us on the sales recorded in the preceding month.</p> <p>Based on the monthly statement provided to us, we will assess the remaining stock held by the consignee.</p>
Exclusivity	Non-exclusive

Based on the F&S Report, our Directors believe that it is a common market practice for toy companies in the ACG figure toy industry to distribute licensed products to retail customers through consignment sales arrangements.

We have principal-agent relationships with all of our consignees, and we retain ownership of the products while they are in our consignees' possession until they were sold to the consignees' customers. Revenue from our consignment sales channels is recognised when the risks and rewards of ownership of the products are transferred outright to the customers of our consignees. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any material issue with the collection of trade receivables from our consignment sales channels, nor had we recorded any material loss or theft of products while they were in the possession of our consignees.

SEASONALITY

Based on our past sales performance, our Directors consider that our sales of toys do not exhibit any significant seasonality pattern.

PRODUCT LIFE CYCLE

The development and sales periods of our own licensed toys are generally subject to the terms of the relevant license agreements. Our Group generally made use of our license rights in the ACG characters throughout the relevant license terms. For our imported toys, our Directors generally have a preliminary estimation of the sales period before we make our purchase based on the popularity of the ACG characters featured in such toys. As a general policy, we classify all imported toys that remain unsold by our Group for more than one year since their commencement of sales as out-of-season products, and will make provision for them. During the Track Record Period and up to the Latest Practicable Date, our Group had not had any out-of-season products which required us to make any provisions.

MARKET AND COMPETITION

According to the Frost & Sullivan Report, ACG figure toy ODM service is generally an offshore operation, with significant complexity and uncertainty associated with the quality of service, and potential presence of agency problem. Brand owners and licensees tend to cooperate with leading service providers with extensive experience and good reputation for the mitigation of risks. Those leading ODM service suppliers who have entered the market early and showcased high quality delivery have set up a high barrier on reputation over new entrants. Established business network and customer relationship can be regarded as a barrier for the new entrants in Hong Kong's ACG figure toy ODM service market. Existing players in this market have already set up stable business networks based on which they accumulated knowledge on particular needs of their key customers. ACG figure toy ODM service suppliers also need substantial experience and technical knowhow for the overall production management and quality control, in particular for high-quality sophisticated ACG figures that require a high level of customization and manual work in production. New entrants to market might find it relatively difficult to set up a professional and technically skilled team for such management in a short period of time, especially when most of the skills and technical knowhow are derived from extensive working experience. Based on the above, our Directors believe it is relatively difficult for newcomers to enter our industry and compete with our Group.

According to the Frost & Sullivan Report, the ACG figure toy ODM service supplying market in Hong Kong is relatively fragmented with the top five companies together occupying 23.2% of the market share. In 2017, our Group, accounting for 3.9% of the market, ranked at the fifth place among the ACG Figure Toy ODM Service Suppliers in Hong Kong, based on total revenue.

BUSINESS

CURRENCY

Our customers of ODM toys generally pay us in US dollar, and we would in turn pay our suppliers in US dollar. In relation to our imported toys, we generally settle the payment with the suppliers in US dollar or Japanese Yen. In some cases, our Japanese toy licensees may require us to settle payment for the imported toys in Japanese Yen, and we will in turn require our distributors to pay us in Japanese Yen in order to minimise the impact of any material currency fluctuation on us. For our own licensed toys, we generally require the customers to settle payment in either US dollar or HK dollar. For a further discussion on the foreign currency risk in relation to our business operation, please refer to the paragraph headed “Financial information — Foreign currency risk” in this prospectus.

EMPLOYEES

As at the Latest Practicable Date, we had a total of 24 full-time employees (including the three executive Directors but excluding the three independent non-executive Directors), all of whom were stationed in Hong Kong. The following table sets out a breakdown of our employees by function as at the Latest Practicable Date:

	Number of full-time employees as at the Latest Practicable Date
Management	3
Accounting and administration	4
Product design and development	4
Engineering	4
Logistics	1
Sales and marketing	5
Quality control	3
	<hr/>
Total	24

Training and recruitment policies

We generally recruit our employees from the open market. We intend to use our best effort to attract and retain appropriate and suitable personnel to serve our Group. Our Group assesses the available human resources on a continuous basis and determine whether additional personnel are required to cope with our business development from time to time.

We provide on-the-job training which covers various areas of our operations and internal control system to our employees to improve their skills and enhance their technical knowledge including product design and development skills as well as industry knowledge.

Remuneration policy

The remuneration packages that we offer to employees include salary and staff welfare. In general, we determine employees' salaries based on their qualification, position and seniority. In order to attract and retain valuable employees, we review the performance of our employees from time to time through annual salary review and promotion appraisal.

Welfare contribution

We maintain employees' compensation insurance as required under the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) for our employees. We also participate in a provident fund scheme (the "MPF Scheme") registered under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all our eligible employees in Hong Kong. During the Track Record Period, our Group's contribution to the MPF Scheme for each of the two years ended 31 March 2017 and the nine months ended 31 December 2017 were approximately HK\$0.2 million, HK\$0.2 million and HK\$0.2 million, respectively.

Employee relationship

Our Directors believe that we have maintained a good relationship with our employees. Our management policies, working environment, development opportunities and employee benefits have contributed to the maintenance of stable employee relations and employee retention. Our Directors believe that we have fostered a supportive workplace culture, which offers a platform to attract and retain employees.

We have not set up any trade union for our employees. During the Track Record Period, our Group has not experienced any labour strike and has not experienced any significant difficulty in recruiting or retaining qualified staff.

INSURANCE

As at the Latest Practicable Date, our Group maintained employees' compensation insurance and third-party liability insurance in relation to our products and transportation vehicles. We have also taken out property insurance in respect of our inventory and moulds. For each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, our insurance expenses were approximately HK\$0.1 million, HK\$0.2 million and HK\$0.3 million, respectively.

During the Track Record Period, our Group had not made any material insurance claims. Our Directors believe that our insurance coverage is adequate and consistent with the industry norm having regard to our current operations and the prevailing industry practice. Please refer to the section "Risk Factors — Risks relating to our business" in this prospectus for further information.

HEALTH AND WORK SAFETY

We place emphasis on the health and safety of our employees in our operation. We provide our employees with guidance from time to time on work safety to ensure that all of our employees are abreast of our safety procedures and policies.

During the Track Record Period and up to the Latest Practicable Date, none of our employees had been involved in any major accident in the course of their employment with us and our Group had complied with applicable health and safety laws and regulations in all material respects.

ENVIRONMENTAL PROTECTION

Our Group is not subject to environmental laws and regulations in our operations as we outsource the production works to our suppliers. As we do not carry out any manufacturing activity, our Directors consider that our business does not involve any environmental protection issue. We have not incurred any cost in complying with applicable environmental laws and regulations during the Track Record Period and up to the Latest Practicable Date.

BUSINESS

PROPERTIES

Real properties

As at the Latest Practicable Date, our Group held three properties in Hong Kong. The following table sets out the information of the properties we owned as at the Latest Practicable Date:

No.	Address	Registered owner as at the Latest Practicable Date	Usage
1	Flat C on 59th Floor (including the balcony, utility platform and air-conditioning room thereof) of Tower 2, The Dynasty No. 18 Yeung Uk Road, Tsuen Wan, New Territories, Hong Kong (the “Property I”)	Bestone Creative	Director’s quarter
2	Flat J on 32nd Floor of Tower 5 of Phase 1, Century Gateway, Century Gateway Development, No. 83 Tuen Mun Heung Sze Wui Road, Tuen Mun, New Territories, Hong Kong (the “Property II”)	Sentinel Hong Kong	Investment property ^(Note)
3	Workshop No. 1 on 14/F, Wang Lung Industrial Building, No. 11 Lung Tak Street, Tsuen Wan, New Territories, Hong Kong (the “Property III”)	Sentinel Hong Kong	Warehouse

Note: Property II is held by our Group for (i) long-term investment purpose; and (ii) where appropriate, for use as staff quarter in the future.

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As at the Latest Practicable Date, each of Property I and Property II was subject to mortgage in favor of an authorised institution. During the Track Record Period and up to the Latest Practicable Date, none of the above three properties was subject to compulsory order for sale or auction in public pursuant to the Land (Compulsory Sale for Redevelopment) Ordinance (Chapter 545 of the Laws of Hong Kong).

For further details of the above three properties, please refer to the property valuation report set out in Appendix IV to this prospectus.

Except for the property interest in Appendix IV to this prospectus, we confirm that no single property interest that forms part of our non-property activities has a carrying amount of 15% or more of our total assets.

Leased properties

The following table sets out the addresses, approximate floor area and the lease terms of the properties leased by us as at the Latest Practicable Date:

No.	Address	Usage	Lessee	Term	Monthly rent
1	Shop 205, 2/F, CTMA Centre, 1-N Sai Yeung Choi Street South, Mong Kok, Kowloon	Flagship store	Moon One	From July 2017 up to June 2019	HK\$24,000
2	Unit D, 3/F, Metex House, No. 28 Fui Yiu Kok Street, Tsuen Wan, New Territories	(i) Storage of toys and samples; (ii) research, design and development of toys; and (iii) ancillary office	D4 Toys	From February 2018 to February 2020	HK\$18,200
3	Unit A-C & I, 3A/F, Metex House, No. 28 Fui Yiu Kok Street, Tsuen Wan, New Territories	(i) Storage of toys and samples; (ii) research, design and development of toys; and (iii) ancillary office	Lai Ga	From April 2017 to April 2019	HK\$45,360

INTELLECTUAL PROPERTY

We have registered two, six, one and one trademarks in relation to the “SENTINEL/千值練” brand in Hong Kong, the PRC, Taiwan and the US, respectively. Further, we have also registered two, four, one, and one trademarks in relation to the “TOPI” and “FLAME TOYS” brands in Hong Kong, the PRC, Taiwan and Japan, respectively. We have submitted applications to register various trademarks in relation to the “SENTINEL/千值練” and “FLAME TOYS” brands in the PRC and the US. In particular, pursuant to the distributorship agreement entered into among Sentinel Japan (as seller), Sentinel Hong Kong (as distributors) and the Japanese Individuals on 19 February 2017 (details of which are set out in the paragraph headed “Customers — Arrangements on the use of “SENTINEL/千值練” brand”), Sentinel Japan and the Japanese Individuals confirm, acknowledgement and agree that Sentinel Hong Kong has all rights to register the “SENTINEL/千值練” brand in any other jurisdictions other than Japan. Therefore, we do not foresee any objection(s) from Sentinel Japan and the Japanese Individuals regarding our trademark registrations in the aforesaid jurisdictions. We are also the registered owner of four domain names. For further information, please refer to the section headed “B. Further information about the business of our Group — 2. Intellectual property rights” of Appendix VI to this prospectus.

In order to ensure potential infringement of third party intellectual property rights, we would obtain an authorization letter from the toy licensor for each line of licensed products sold by us which would authenticate our authority in relation to the design, manufacture and distribution of such licensed products. As at the Latest Practicable Date, we were not involved in any litigation relating to infringement of intellectual property rights in respect of our products. Our Directors confirmed that they were not aware of any infringement of intellectual property rights by our Group up to the Latest Practicable Date.

Going forward, if we discover any potential infringement of our intellectual properties in Hong Kong or abroad, we will consider to engage external legal advisers in the relevant territory to enforce our rights, depending on the expected benefits and costs of the legal actions.

LICENSES AND QUALIFICATIONS

In relation to the use of third-party owned ACG characters, our Group is required to obtain from the licensors the license rights to design, manufacture and/or distribute licensed products which involve the use of their ACG characters. For further details about the terms of our license agreements, please refer to the paragraphs headed “Descriptions of business operations” above in this section.

Save as the aforesaid as advised by the Hong Kong Legal Counsel, our Group is not required to hold any licenses or permits in relation to conducting design and sale of toy and related products in Hong Kong.

BUSINESS

LEGAL PROCEEDINGS

As at the Latest Practicable Date, our Group was not involved in any litigation, arbitration or claim of material importance. In addition, our Directors are not aware of any litigation, arbitration or claim pending or threatened by or against us which may have a material adverse effect on our business, financial condition or results of operations.

REGULATORY COMPLIANCE

Save as disclosed in this paragraph, based on the advice of the Hong Kong Legal Counsel, our Directors confirm that we have conducted its operations and carried out its business in compliance with applicable laws and regulations in all material aspects in Hong Kong.

Non-compliance with the Inland Revenue Ordinance

Set out below are non-compliance of our Group with the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "IRO"):

Relevant section of the ordinance	Particulars of the non-compliance	Rectification measures and actual penalties	Reason(s) for the non-compliance	Internal control measures to prevent recurrence of similar incidents
Section 71 of the IRO	Each of Bestone Creative, D4 Toys and Sentinel Hong Kong failed to pay their respective tax for the year of assessment 2014/2015 by the due dates.	<p>Pursuant to section 71(1) of the IRO, the Inland Revenue Department imposed surcharges in the sum of HK\$2,561, HK\$4,781 and HK\$37,401 on Bestone Creative, D4 Toys and Sentinel Hong Kong.</p> <p>The total outstanding tax, together with the surcharges, in respect of Bestone Creative and D4 Toys had been duly settled.</p> <p>Upon written submission made by Sentinel Hong Kong, the IRD subsequently agreed to waive the surcharge against Sentinel Hong Kong. The total outstanding tax in respect of Sentinel Hong Kong had been duly settled.</p> <p>As advised by the Hong Kong Legal Counsel, the aforesaid non-compliances had been fully settled and there is no further liability on the part of our Group companies or their directors for such non-compliances.</p>	<p>The omission was not willful and was due to the inadvertent oversight of our accounting staff and absence of timely and professional advice at the material time.</p> <p>Our Directors had not director or willful involvement in the breach.</p>	We have designated a specific staff to closely monitor our tax payment matter, who shall directly report to our executive Director, Mr. To Hoi Pan.

BUSINESS

Relevant section of the ordinance	Particulars of the non-compliance	Rectification measures	Actual or estimated penalties	Reason(s) for the non-compliance	Internal control measures to prevent recurrence of similar incidents
Sections 51(1) and 80(2) of the IRO	Each of D4 Toys, Lai Ga and Sentinel Hong Kong failed to file their respective profits tax returns for the years of assessment 2014/2015 by the due dates.	<p>In the case of Lai Ga and Sentinel Hong Kong, the IRD issued a notice of assessment and demand for additional tax under section 82A of the IRO with additional tax by way of penalty assessed at HK\$5,000 and HK\$45,000 against them, respectively. The additional tax imposed by the IRD had been settled by us.</p> <p>In the case of D4 Toys, the IRD accepted its submission regarding the reason of late filing and decided that no action will be taken against D4 Toys on this occasion.</p>	<p>The maximum penalty of the aforesaid non-compliance for each the relevant Group member is a fine within the range of HK\$5,001 to HK\$10,000 and a further fine of the maximum of treble amount of tax which has been undercharged.</p> <p>With the settlement of additional tax imposed by the IRD against Lai Ga and Sentinel Hong Kong, and with the confirmation of the IRD for not taking any action against D4 Toys, the Hong Kong Legal Counsel is of the view that (i) the risk of such companies being prosecuted for late filing of the tax return is highly remote; and (ii) the directors and/or officers of such companies are highly unlikely to be personally liable for the aforesaid non-compliance.</p>	<p>The omission was not willful and was due to of auditors in relation to the relevant Group companies which required extra time and efforts to handle the auditing works.</p> <p>Our Directors had not director or willful involvement in the breach.</p>	We have designated a specific staff to closely monitor our tax returns filing matter, who shall directly report to our executive Director, Mr. To Hoi Pan.

Indemnity given by our Controlling Shareholders

Our Controlling Shareholders have entered into the Deed of Indemnity whereby our Controlling Shareholders have agreed indemnify our Group, subject to the terms and conditions of the Deed of Indemnity, in respect of any liabilities which may arise as a result of any non-compliance of our Group with the applicable laws, rules or regulations on or before the date on which the Share Offer becomes unconditional. Further details of the Deed of Indemnity are set out in the paragraph headed “E. Other information — 1. Tax and other indemnities” in Appendix VI to this prospectus.

View of our Directors

Our Directors consider that the aforesaid non-compliance incidents would not affect the suitability of our executive Directors under Rule 5.01 and Rule 5.02 of the GEM Listing Rules or the suitability for listing of our Company under Rule 11.06 of the GEM Listing Rules and that the various internal control measures adopted by our Group are adequate and effective having taken into account that (i) our Group have fully rectified all of the non-compliance incidents, if applicable; (ii) our Group has implemented the aforesaid internal control measures to avoid recurrence of similar incidents; (iii) the non-compliance incidents were unintentional and did not involve any dishonesty or fraudulent act on the part of our executive Directors.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

Key risks relating to our business are set out in the section headed “Risk factors” in this prospectus. The following sets out the key measures adopted by our Group under our risk management and internal control systems for managing the more particular operational and financial risks relating to our business operation:

(i) ODM customer concentration risk

Please refer to the paragraphs headed “Customers — Customer concentration”, “Customers — Our relationship with Sentinel Japan” and “Customers — Our relationship with Wing Co., Ltd.” above in this section.

(ii) Risk relating to the use of intellectual properties

Please refer to the paragraphs headed “Intellectual property” and “Mould deployed in toy manufacturing” above in this section.

(iii) Manufacturing supplier and imported toy supplier concentration risk

Please refer to the paragraphs headed “Suppliers — Supplier concentration” and “Customers — Our relationship with Sentinel Japan” above in this section.

(iv) Risks relating to sales to distributors and excess inventory kept by distributors

Please refer to the paragraph headed “Sales and marketing — Our distributor network” above in this section.

(v) Risks relating to non-renewal and/or termination of product license rights

Please refer to the paragraphs headed “Description of business operations — II. Distribution of imported toys — Our license agreements for imported toys” and “Description of business operations — III. Sale of own licensed toys — Our licensing strategy” above in this section.

(vi) Liquidity risk

In the procurement and sales of toys and related products, there are often time lags between making payments to our suppliers and receiving payments from our customers, resulting in potential cash flows mismatch. If we choose to pay our suppliers only after receiving payments from our customers, we will risk our reputation in being able to make payments on a timely manner, which could harm our ability to engage capable and quality suppliers for our business in the future. In particular, for our own licensed products, we have to incur license fee payment to the licensor and manufacturing cost of the mould and the finished products, while we will not receive any payment of the purchase price until the products are launched for sale or pre-ordering.

For each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, our creditors’ turnover days were approximately 54.3 days, 53.0 days and 21.2 days respectively and our debtors’ turnover days were approximately 21.7 days, 32.2 days and 41.4 days respectively.

In order to manage our liquidity position in view of the aforesaid working capital requirements associated with procurement and sales of toys and related products, we have adopted the following measures:

- Before securing each new toy development license agreement, our executive Directors, Mr. To Hoi Pan (whose experience and qualifications are disclosed in the section headed “Directors and senior management” in this prospectus), prepares an analysis of the forecasted amount and timing of cash inflows and outflows in relation to the development of the new own licensed toys and our overall business operations so as to ensure the sufficiency of our financial resources before securing a new toy development license agreement; and
- If, based on our regular monitoring by Mr. To Hoi Pan, there is any expected shortage of internal financial resources, we may refrain from securing new toy development license agreement and/or consider different financing alternatives, including but not limited to obtaining adequate committed lines of funding from banks and other financial institutions.

(vii) Risks relating to the use of “SENTINEL/千值練” brand

Please refer to the paragraph headed “Intellectual property” and “Customers — Our relationship with Sentinel Japan” above in this section.

(viii) Quality control system

Please refer to the paragraphs headed “Quality control” and “Suppliers — Basis of selecting toy manufacturers” above in this section.

(ix) Credit risk relating to collection of trade receivables

Please refer to the paragraph headed “Customer — Collection of trade receivables” above in this section.

(x) Corporate governance measures

Our Company will comply with the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules. We have established three board committees, namely, the audit committee, the nomination committee and the remuneration committee, with respective terms of reference in compliance with the Corporate Governance Code. For details, please refer to the section headed “Directors and senior management — Board committees” in this prospectus. In particular, one of the primary duties of our audit committee is to review the effectiveness of our Company’s internal control systems. Our audit committee consists of all three of our independence non-executive Directors, whose backgrounds and profiles are set out in the section headed “Directors and senior management” in this prospectus.

In addition, to avoid potential conflicts of interest, we will implement corporate governance measures as set out in the section headed “Relationship with our Controlling Shareholders — Non-competition undertakings by our Controlling Shareholders” in this prospectus.

Our Directors will review our corporate governance measures and our compliance with the Corporate Governance Code each financial year end and comply with the “comply or explain” principle in our corporate governance reports to be included in our annual reports after Listing.

(xi) Risk relating to compliance with the GEM Listing Rules after Listing

Our Group has adopted the following measures to ensure continuous compliance with the GEM Listing Rules after Listing:

- On 3 March 2017, our Directors attended training sessions conducted by our legal advisers as to Hong Kong laws on the on-going obligations and duties of a director of a company whose shares are listed on GEM.
- Our Company has engaged Ample Capital Limited as our compliance adviser and will, upon Listing, engage legal advisers as to Hong Kong laws, which will advise and assist our Board on compliance matters in relation to the GEM Listing Rules and/or other relevant laws and regulations applicable to our Company.
- When considered necessary and appropriate, we will seek professional advice and assistance from independent internal control advisers, external legal advisers and/or other appropriate independent professional advisers with respect to matters related to our internal controls and legal compliance.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board currently consists of six Directors, comprising three executive Directors and three independent non-executive Directors. Our Directors are supported by our senior management in the day-to-day management of our business.

The following table sets forth the information concerning our Directors:

Name	Age	Position	Date of joining our Group	Date of appointment as Director	Relationship with other Directors and senior management	Role and responsibility
Executive Directors						
Mr. LI Wai Keung (李偉強)	38	Executive Director, Chairman and chief executive officer	6 September 2004	16 November 2016	N/A	Responsible for overall business development as well as financial and strategic planning of our Group
Mr. TO Hoi Pan (杜海斌)	44	Executive Director and company secretary	1 March 2016	26 January 2017	N/A	Responsible for (i) the financial reporting, financial planning, treasury and financial control and company secretarial matters; and (ii) the overall business development of our Group
Ms. LEE Kwai Fong (李桂芳)	32	Executive Director and general manager	21 August 2006	2 March 2017	N/A	Responsible for managing the general operations of our Group

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of joining our Group	Date of appointment as Director	Relationship with other Directors and senior management	Role and responsibility
Independent non-executive Directors						
Mr. YU Pui Hang (余沛恒)	38	Independent non-executive Director	11 May 2018	11 May 2018	N/A	Providing independent judgement on our strategy, performance, resources and standard of conduct
Mr. TUNG Man (董文)	43	Independent non-executive Director	11 May 2018	11 May 2018	N/A	Providing independent judgement on our strategy, performance, resources and standard of conduct
Ms. CHOW Chi Ling Janice (周織玲)	35	Independent non-executive Director	11 May 2018	11 May 2018	N/A	Providing independent judgement on our strategy, performance, resources and standard of conduct

Executive Directors

Mr. LI Wai Keung (李偉強), aged 38, is a founder of our Group. He is the Chairman, a Controlling Shareholder and an executive Director. He is currently responsible for overall business development as well as financial and strategic planning of our Group. Mr. Li is also a director of each of the wholly-owned subsidiaries of our Group.

Mr. Li has over 12 years of experience in the ACG toy industry in Hong Kong. Prior to establishing our Group, Mr. Li worked at L. Y. Creative Co., Limited, which was a company engaged in toy industry, from November 2002 to April 2004, with his last position as project engineer. Subsequently, from May 2004 to July 2004, he worked as a project engineer at Hutchison Harbour Ring Co., Limited, which was a company engaged in toy industry. In September 2004, he, among others, established Bestone Creative for designing and manufacturing toys on ODM basis. In December 2008, Mr. Li, among others, established Sentinel Hong Kong with the aim to developing and distributing its own licensed toys of ACG characters. Mr. Li obtained a degree of Bachelor of Engineering in Mechanical Engineering from The Hong Kong Polytechnic University in November 2001.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Li was previously a director of each of the following companies incorporated in Hong Kong prior to the respective dissolution:

Name of company	Date of dissolution	Nature of proceeding	Nature of business before dissolution
Adachi International Co. Limited	7 May 2010	Deregistration	No business operation since incorporation
Azure Toys Company Limited	17 November 2006	Deregistration	Trading of toy product
JOD Co. Limited	28 July 2006	Deregistration	No business operation since incorporation

The above-mentioned companies had remained solvent and had no outstanding liabilities on or before its dissolution, and have not been involved in any material non-compliant incidents, claims, litigations or legal proceedings and there were no claims against himself in relation to the above-mentioned companies.

Mr. Li does not hold any current or past directorships in the last three years preceding the Latest Practicable Date in any public companies listed on any securities market in Hong Kong or overseas.

Mr. TO Hoi Pan (杜海斌), aged 44, is an executive Director and the company secretary of our Company. He is currently responsible for (i) the financial reporting, financial planning, treasury and financial control and company secretarial matters; and (ii) the overall business development of our Group.

Mr. To has over 13 years of experience in the field of accounting and financial management. Prior to joining our Group, from April 2003 to March 2004, Mr. To worked as assistant accountant at Jebson & Co. Limited. From March 2004 to June 2011, he worked as accounting manager at Bio-Treat Technology Limited (currently known as China Everbright Water Limited). Mr. To then worked as accounting consultant in Timex Corporate Consulting Limited from July 2011 to February 2013. From May 2013 to June 2015, he worked as chief finance officer at Opes Asia Development Limited (Stock code: 810) (currently known as China Internet Investment Finance Holdings Limited), the shares of which are listed on the Main Board of Stock Exchange. Mr. To joined our Group as a chief financial officer in March 2016, and was appointed as our company secretary in March 2017.

Mr. To obtained a degree of Bachelor of Commerce in Accountancy from the University of Wollongong in Australia in December 1999. He became a certified practicing accountant of the CPA Australia in June 2007. Mr. To is currently a certified public accountant of the Hong Kong Institute of Certified Public Accountants.

Mr. To does not hold any current or past directorships in the last three years preceding the Latest Practicable Date in any public companies listed on any securities market in Hong Kong or overseas.

DIRECTORS AND SENIOR MANAGEMENT

Ms. LEE Kwai Fong (李桂芳), aged 32, is an executive Director and our general manager. Ms. Lee joined our Group in August 2006 and was promoted to general manager in November 2011. Ms. Lee is mainly responsible for managing the general operations of our Group. Ms. Lee attended secondary school education in Hong Kong. She completed the Certificate Programme in Basic Korean level 1 and level 2, both at the School of Continuing and Professional Studies of The Chinese University of Hong Kong, in November 2011 and April 2012, respectively.

Ms. Lee does not hold any current or past directorships in the last three years preceding the Latest Practicable Date in any public companies listed on any securities market in Hong Kong or overseas.

Independent non-executive Directors

Mr. YU Pui Hang (余沛恒), aged 38, is an independent non-executive Director. He is responsible for providing independent judgement on our strategy, performance, resources and standard of conduct. Mr. Yu obtained a degree of Bachelor of Laws from the King's College London of the University of London in the United Kingdom in July 2001. Mr. Yu was admitted to practise law as a solicitor in Hong Kong in August 2004 and in England and Wales in April 2005. He was also admitted as an associate of the Hong Kong Institute of Arbitrators in May 2003. Mr. Yu was appointed as the honorary legal advisor to the Hong Kong Federation of Invention and Innovation since July 2017 and the honorary legal advisor to The GHM-Greater Bay Area TECHFIN Association since May 2018.

Mr. Yu has over 12 years of experience in the legal industry. Mr. Yu worked as assistant solicitor at Kennedys from July 2004 to August 2005. From November 2005 to October 2006, he worked as an associate at a Hong Kong office of Norton Rose (Services) Limited. He then worked as associate at Freshfields Bruckhaus Deringer from November 2006 to July 2010. Subsequently, he worked at ICBC International Holdings Limited from July 2010 to December 2015 with his last position as executive director, associate general counsel of legal department. In January 2016, Mr. Yu co-founded L&Y Law Office, and is currently a partner of the firm.

Mr. Yu does not hold any current or past directorships in the last three years preceding the Latest Practicable Date in any public companies listed on any securities market in Hong Kong or overseas.

Mr. TUNG Man (董文), aged 43, is an independent non-executive Director. He is responsible for providing independent judgement on our strategy, performance, resources and standard of conduct. Mr. Tung obtained a degree of Bachelor of Social Science with Honours from The Chinese University of Hong Kong in December 1997.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Tung has over 19 years of experience in the banking and finance industry. From October 1997 to August 2000, Mr. Tung worked at Dao Heng Bank Limited, with his last position as consultant personal financial services. From August 2000 to February 2005, Mr. Tung worked at Chekiang First Bank Limited, and subsequently Wing Hang Bank, Limited (after its acquisition of the former bank), with his last position as senior officer. Mr. Tung subsequently worked at the Hong Kong Branch of Bank of Communications Co., Ltd from February 2005 to October 2015 at which his last position was deputy chief relationship manager of global banking. Mr. Tung has worked at China Tian Yuan International Finance (Management) Limited since October 2015, and is currently the managing director of the capital management department.

Mr. Tung does not hold any current or past directorships in the last three years preceding the Latest Practicable Date in any public companies listed on any securities market in Hong Kong or overseas.

Ms. CHOW Chi Ling Janice (周緻玲), aged 35, is an independent non-executive Director. She is responsible for providing independent judgement on our strategy, performance, resources and standard of conduct. Ms. Chow obtained a degree of Bachelor of Commerce from The University of Auckland in New Zealand in May 2004. She subsequently obtained a degree of Master of Commerce in Finance from The University of New South Wales in Australia in September 2005. She has become a certified public accountant of the Hong Kong Institute of Certified Public Accountants since January 2010.

Ms. Chow has over 12 years of experience in the auditing and financial management industry. Ms. Chow worked as graduate accountant in audit division at Stirling SCI, chartered accountants, from July 2004 to May 2005. From September 2005 to December 2007, she worked at Wong Lam Leung & Kwok C.P.A Limited, with her last position as accountant II. She subsequently joined Moore Stephens Associates Limited in Hong Kong as audit assistant in January 2008 and worked until September 2012, with her last position as an audit supervisor. From February 2013 to July 2016, she worked as assistant financemanager at Boer Power Holdings Limited (stock code: 1685), the shares of which are listed on the Main Board of the Stock Exchange. From October 2016 to December 2016, she was employed by Sky Business Consultants Limited as consulting manager. Ms. Chow joined Ready Electrical Metal Work Limited, a wholly-owned subsidiary of REM Group (Holdings) Limited ("**REM Group**" (stock code: 1750), the shares of which are listed on the Main Board of the Stock Exchange) in January 2017, and she is currently serving as the chief financial officer and the company secretary of REM Group.

Ms. Chow does not hold any current or past directorships in the last three years preceding the Latest Practicable Date in any public companies listed on any securities market in Hong Kong or overseas.

DIRECTORS AND SENIOR MANAGEMENT

Disclosure required under Rule 17.50(2) of the GEM Listing Rules

Save as disclosed in this prospectus, each of our Directors confirmed with respect to himself/herself that he/she: (i) did not hold other positions in our Company or other members of our Group as at the Latest Practicable Date; and (ii) did not have any other relationship with any other Directors, senior management, Substantial Shareholders or Controlling Shareholders of our Company as at the Latest Practicable Date. As at the Latest Practicable Date, save as the interests of Mr. Li in the Shares as disclosed in the section headed “C. Further Information about Directors, senior management and staff” in Appendix VI to this prospectus, each of our Directors did not have any interest in the Shares within the meaning of Part XV of the SFO.

Save as disclosed above, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there is no additional information relating to our Directors or senior management that is required to be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules and no other matter with respect to their appointments that needs to be brought to the attention of our Shareholders as at the Latest Practicable Date.

SENIOR MANAGEMENT

The following table sets out certain information concerning our senior management:

Name	Age	Position	Date of joining our Group	Relationship with other Directors and senior management	Role and responsibility
Ms. LAW Yuen Wai (羅婉慧)	37	Sales manager	1 August 2013	N/A	Overseeing the overall sales and customer service of our Group
Ms. FU Man Yin (傅敏賢)	32	Marketing manager	10 July 2014	N/A	Overseeing the marketing activities of our Group

Ms. LAW Yuen Wai (羅婉慧), aged 37, has joined our Group since August 2013 and was promoted to sales manager in March 2016. Ms. Law is mainly responsible for overseeing the overall sales and customer service of our Group. Ms. Law obtained a degree of Bachelor of Arts in Marketing and Public Relations from the School of Professional Education and Executive Development of The Hong Kong Polytechnic University in October 2012.

DIRECTORS AND SENIOR MANAGEMENT

Prior to joining our Group, Ms. Law has accumulated experience in marketing and administration in Hong Kong through her employment at Avroy Outdoor Limited as assistant merchandiser from January 2004 to June 2005, Billy Trading Co., Ltd as assistant merchandiser from July 2005 to September 2006, Oro Watch Limited as marketing assistant from November 2006 to February 2009, Chuk Yip Enterprise Co., Ltd. as marketing assistant from December 2009 to June 2010, Greenland Watch Limited as sales-coordinator from June 2010 to February 2011, Heshen Limited as project coordinator from June 2012 to April 2013.

Ms. Law does not hold any current or past directorships in the last three years preceding the Latest Practicable Date in any public companies listed on any securities market in Hong Kong or overseas.

Ms. FU Man Yin (傅敏賢), aged 32, has joined our Group since July 2014 and was promoted to marketing manager in March 2016. She is mainly responsible for overseeing the marketing activities of our Group. She obtained a degree of Bachelor of Arts from The Chinese University of Hong Kong in December 2009.

Prior joining our Group, Ms. Fu has accumulated experience in marketing in Hong Kong through her employment at Konishi M&E Limited as sales coordinator from August 2009 to April 2012 and BB Technology Limited as assistant to director from August 2013 to December 2013.

Ms. Fu does not hold any current or past directorships in the last three years preceding the Latest Practicable Date in any public companies listed on any securities market in Hong Kong or overseas.

Save as disclosed in this prospectus, each of our senior management confirmed with respect to herself that she: (i) did not hold other positions in our Company or other members of our Group as at the Latest Practicable Date; and (ii) did not have any other relationship with any other Directors, senior management, Substantial Shareholders or Controlling Shareholders of our Company as at the Latest Practicable Date.

COMPANY SECRETARY

Mr. TO Hoi Pan (杜海斌) is the company secretary of our Company. Detail of his qualifications and experience have been disclosed in the paragraph headed “Executive Directors” above in this section.

DIRECTORS AND SENIOR MANAGEMENT

COMPLIANCE OFFICER

Mr. TO Hoi Pan (杜海斌) is the compliance officer of our Company. Details of his qualifications and experience have been disclosed in the paragraph headed “Executive Directors” above in this section.

BOARD COMMITTEES

Audit committee

We have established an audit committee pursuant to a resolution of our Directors passed on 11 May 2018 in compliance with Rule 5.28 of the GEM Listing Rules and with the written terms of reference in compliance with the Corporate Governance Code (the “Code”) as set out in Appendix 15 of the GEM Listing Rules. The primary duties of our audit committee are (i) to make recommendations to our Board on the appointment and removal of external auditors, (ii) to review the financial statements and material advice in respect of financial reporting process of our Group and (iii) to oversee the internal control systems of our Group. Our audit committee currently consists of all of our independent non-executive Directors, namely Ms. Chow Chi Ling Janice, Mr. Yu Pui Hang and Mr. Tung Man. Ms. Chow Chi Ling Janice is the chairman of our audit committee.

Nomination committee

We have established a nomination committee pursuant to a resolution of our Directors passed on 11 May 2018 with written terms of reference in compliance with the Code. The primary duties of our nomination committee are (i) to review the structure, size and composition of our Board on a regular basis; (ii) to identify individuals suitably qualified to become Board members and to select or make recommendations to our Board on the selection of individuals for nomination of directorships of the Company; (iii) to assess the independence of independent non-executive Directors; and (iv) to make recommendations to our Board on relevant matters relating to the appointment or re-appointment of Directors. Our nomination committee currently consists of all of our independent non-executive Directors, namely Mr. Tung Man, Mr. Yu Pui Hang and Ms. Chow Chi Ling Janice. Mr. Tung Man is the chairman of our nomination committee.

Remuneration committee

We have established a remuneration committee pursuant to a resolution of our Directors passed on 11 May 2018 in compliance with Rule 5.34 of the GEM Listing Rules and with the written terms of reference in compliance with the Code. The primary duties of our remuneration committee are (i) to review and make recommendations to our Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group; (ii) to review and approve other remuneration-related matters, including benefits-in-kind and other compensation payable to our Directors and senior management; and (iii) to review and approve performance-based remuneration and to establish a formal and transparent procedure for developing policy in relation to remuneration. Our remuneration committee currently consists of all of our independent non-executive Directors, namely Mr. Yu Pui Hang, Ms. Chow Chi Ling Janice and Mr. Tung Man. Mr. Yu Pui Hang is the chairman of our remuneration committee.

DIRECTORS AND SENIOR MANAGEMENT

Corporate Governance

Our Company will comply with the Corporate Governance Code (the “Code”) in Appendix 15 to the GEM Listing Rules save and except for code provision A.2.1 in relation to the segregation of the roles of chairman and chief executive.

Under paragraph A.2.1 of the Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Under the current organisation structure of our Company, Mr. Li is our Chairman and chief executive officer. With his extensive experience in the industry, our Board believes that vesting the roles of both chairman and chief executive officer in the same person provides our Company with strong and consistent leadership, allows for effective and efficient planning and implementation of business decisions and strategies, and is beneficial to the business prospects and management of our Group. Although Mr. Li performs both the roles of chairman and chief executive officer, the division of responsibilities between the chairman and chief executive officer is clearly established. In general, the chairman is responsible for supervising the functions and performance of our Board, while the chief executive officer is responsible for the management of the business of our Group. The two roles are performed by Mr. Li distinctly. We also consider that the current structure does not impair the balance of power and authority between our Board and the management of our Company given the appropriate delegation of the power of our Board and the effective functions of our independent non-executive Directors.

Our Directors will review our corporate governance policies and compliance with the Code each financial year and comply with the “comply or explain” principle in our corporate governance report which will be included in our annual reports after the Listing.

In order to comply with the requirements under the GEM Listing Rules and the code provisions contained in the Code, we will implement corporate governance measures including those set out in the section headed “Business — Risk management and internal control systems” and the section headed “Relationship with our Controlling Shareholders — Non-competition undertakings by our Controlling Shareholders” in this prospectus.

Compliance adviser

We have appointed Ample Capital as our compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules. Pursuant to Rule 6A.23 of the GEM Listing Rules, the compliance adviser will advise our Company in the following circumstances:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be of a notifiable or connected transaction, is contemplated including but not limited to share issues and share repurchase;
- (iii) where our Company proposes to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where the business activities, developments or results of operation of our Group deviate from any forecast, estimate, or other information in this prospectus; and

DIRECTORS AND SENIOR MANAGEMENT

- (iv) where the Stock Exchange makes an enquiry of our Company under Rule 17.11 of the GEM Listing Rules regarding unusual movements in the price or trading volume of the Shares.

The term of appointment of our compliance adviser shall commence on the Listing Date and end on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of our financial results for the second full financial year commencing after the Listing Date, subject to early termination.

REMUNERATION POLICY

Our Directors and senior management receive compensation in the form of director fees, salaries, benefits in kind and/or discretionary bonuses with reference to those paid by comparable companies, their time commitment and the performance of our Group. Our Group also reimburses our Directors and senior management for expenses which are necessarily and reasonably incurred for the provision of services to our Group or executing their functions in relation to the operations of our Group. We regularly review and determine the remuneration and compensation packages of our Directors and senior management, by reference to, among other things, market level of remuneration and compensation paid by comparable companies, the respective responsibilities of our Directors and the performance of our Group.

After Listing, the remuneration committee of our Company will review and determine the remuneration and compensation packages of our Directors with reference to their responsibilities, workload, the time devoted to our Group and the performance of our Group. Our Directors may also receive options to be granted under the Share Option Scheme.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The aggregate amount of emoluments (including salaries, allowances and benefits in kind, retirement scheme contributions) paid by our Group to our Directors for each of the two years ended 31 March 2017 and the nine months ended 31 December 2017 was approximately HK\$1.4 million, HK\$2.1 million and HK\$2.0 million, respectively.

Under the arrangement currently in force, the aggregate remuneration to our Directors paid or payable (excluding any discretionary bonus) in respect of the year ending 31 March 2019 is estimated to be approximately HK\$3.1 million.

The aggregate amount of emoluments (including salaries and other emoluments, and retirement scheme contributions) paid by our Group to our five highest paid individuals (excluding our Directors) for each of the two years ended 31 March 2017 and the nine months ended 31 December 2017 was approximately HK\$1.1 million, HK\$0.8 million and HK\$0.6 million, respectively.

During the Track Record Period, no emoluments were paid by our Group to our Directors or to the above-mentioned highest paid individuals as (i) an inducement to join or upon joining our Group or (ii) as compensation for loss of office as a director or management of any members of our Group. Furthermore, none of our Directors waived any remuneration for the Track Record Period.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately following completion of the Capitalisation Issue and the Share Offer, without taking into account any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, our Company will be owned as to 63.75% by Infinite Force, which is wholly-owned by Mr. Li. As Infinite Force and Mr. Li are directly or indirectly entitled to exercise or control the exercise of 30% or more of the voting power at general meetings of our Company immediately following the Listing, each of Infinite Force and Mr. Li shall be regarded as a Controlling Shareholder within the meaning of the GEM Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors believe that our Group will be able to conduct our business independent from and without undue reliance on our Controlling Shareholders and their respective close associates after the Listing based on the following reasons:

Management independence

Our Board consists of six Directors, comprising three executive Directors and three independent non-executive Directors. Our Board and our senior management team together perform the managerial role in our Group independently from our Controlling Shareholders. All material and important corporate acts of our Group are considered and determined by our Board as a whole.

None of our independent non-executive Directors is connected to our Controlling Shareholders or any of their respective close associates. Our independent non-executive Directors are experienced in different professions to ensure that the decisions of our Board are made only after due consideration of independent and impartial opinions. Our Board is capable of making independent decisions on any matters even in the case of potential conflicts of interest and/or material interest for any executive Director.

Our Group has established a set of corporate governance procedures to protect the interest of and maximise the value of our Shareholders. Each of our Directors is fully aware of his/her fiduciary duties to our Company, which require, among others, that he/she must act for the benefit of and in the best interest of our Company. Our Directors will abstain from voting in respect of any matters involving conflicts of interest or potential conflicts of interest for him/her in accordance with the Articles and the GEM Listing Rules.

Our Board is supported by our senior management team in formulating the business plans and strategies of our Group. The day-to-day management and operation of our Company is independent from our Controlling Shareholders and their respective close associates.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Operational independence

We have established our own organisational structure, which is comprised of individual functional departments, and each department is assigned to specific areas of responsibilities. We are in possession of all necessary relevant licenses, approvals and certificates to carry on and operate our business and we have sufficient operational capacity in terms of capital and employees to operate independently. We have our own headcount of employees for our operations and management for human resources. We have also established a set of internal control guidelines to facilitate the effective and independent operation of our business. We do not rely on our Controlling Shareholders or their respective close associates for our operations. We have independent access to suppliers and customers and an independent management team to handle our daily operations.

Based on the above, our Directors are of the view that there is no operational dependence by us on our Controlling Shareholders and our Group is able to operate independently from our Controlling Shareholders after the Listing.

Financial independence

Our Directors believe that our Company is capable of obtaining financing from Independent Third Parties, if necessary, without reliance on our Controlling Shareholders. Our Directors therefore believe that our Company will have independent access to bank finance after the Listing through the provision of corporate guarantees and/or other security by our Group. During the Track Record Period, Mr. Li had provided personal guarantee to secure our outstanding bank loans. The Company was arranging for the release of such personal guarantee provided by Mr. Li as at the Latest Practicable Date and such personal guarantee will be fully released before the Listing. For details, please refer to the paragraph headed “Financial Information — Indebtedness — Borrowings” in this prospectus.

Moreover, we have our own accounting systems, accounting and finance department, independent treasury function for cash receipts and payments and we make financial decisions in accordance with our own business needs.

Based on the above, our Directors consider that our Company is able to maintain financial independence from our Controlling Shareholders after the Listing.

RULE 11.04 OF THE GEM LISTING RULES

As at the Latest Practicable Date, each of our Controlling Shareholders, our Directors, our substantial Shareholders and their respective close associates did not have any interest in a business apart from our Group’s business which competes or is likely to compete, directly or indirectly, with our Group’s business, and would require disclosure pursuant to Rule 11.04 of the GEM Listing Rules.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

NON-COMPETITION UNDERTAKINGS BY OUR CONTROLLING SHAREHOLDERS

Each of our Controlling Shareholders (collectively, the “**Covenantors**”), has given certain non-competition undertakings in favor of our Company (for itself and as trustee for each of our subsidiaries) under the Deed of Non-competition, pursuant to which each of the Covenantors, jointly and severally, warrants and undertakes with our Company that, from the Listing Date and ending on the occurrence of the earlier of,

- (a) any of the Covenantors, and his/its close associates and/or successor, individually and/or collectively, cease to own 30% (or such percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) or more of the then issued share capital of our Company directly or indirectly or cease to be deemed as our Controlling Shareholder; or
- (b) the Shares cease to be listed on the Stock Exchange (except for temporary suspension of the Shares due to any reason),

he/it will not, and will procure any of his/its close associates and any company directly or indirectly controlled by he/it (which for the purpose of the Deed of Non-competition, shall not include any member of our Group) not to (i) either on his/its own or in conjunction with any body corporate, partnership, joint venture or other contractual agreement, whether directly or indirectly, whether for profit or not, carry on, participate in, hold, engage in, acquire or operate, or provide any form of assistance to any person, firm or company (except members of our Group) to conduct any business which, directly or indirectly, competes or may compete with the business presently carried on by our Company or any of our subsidiaries or any other business that may be carried on by any of them from time to time during the term of the Deed of Non-competition, in Hong Kong and such other places as our Company or any of our subsidiaries may conduct or carry on business from time to time, including but not limited to design, marketing, distribution and retail sales of toys and related products (the “**Restricted Business**”); and (ii) directly or indirectly take any action which constitutes an interference with or a disruption of the Restricted Business including, but not limited to, (aa) solicitation of any existing or then existing employees of our Group for employment by him/it or his/its close associates (excluding our Group); (bb) solicitation of any current or then current customers and/or suppliers and/or former customers and/or suppliers of our Group for the preceding six months at the relevant time away from our Group; and (cc) without the consent from our Company, making use of any information pertaining to the business of our Group which may have come to his/its knowledge in his/its capacity as a controlling shareholder for the purpose of engaging, investing or participating in any Restricted Business. Such non-competition undertakings do not apply to:

- (i) the holding of Shares or other securities issued by our Company or any of our subsidiaries from time to time;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (ii) the holding of shares or other securities in any company which has an involvement in the Restricted Business, provided that such shares or securities are listed on a recognised stock exchange and the aggregate interest of the Covenantor and his/its close associates (as “interest” is construed in accordance with the provisions contained in Part XV of the SFO) does not amount to more than 5% of the relevant share capital of the company in question;
- (iii) the contracts or other agreements entered into between our Group and the Covenantor and/or his/its close associates; and
- (iv) the involvement, participation or engagement of the Covenantor and/or his/its close associates in the Restricted Business in relation to which our Company has agreed in writing to such involvement, participation or engagement, following a decision by our independent non-executive Directors to allow such involvement, participation or engagement subject to any conditions our independent non-executive Directors may require to be imposed.

New business opportunity

The Covenantors have further undertaken to procure that, any business investment or other commercial opportunity relating to the Restricted Business (the “**New Opportunity**”) identified by or offered to the Covenantors and/or any of their close associates (other than members of our Group) (the “**Offeror**”) is first referred to us in the following manner:

- (a) the Covenantors are required to, and shall procure their close associates (other than members of our Group) to, refer, or procure the referral of, the New Opportunity to us, and shall give written notice to us of any New Opportunity containing all information reasonably necessary for us to consider whether (i) the New Opportunity would constitute competition with our core business and/or any other new business which our Group may undertake at the relevant time, and (ii) it is in the interest of our Group to pursue the New Opportunity, including but not limited to the nature of the New Opportunity and the details of the investment or acquisition costs (the “**Offer Notice**”);
- (b) the Offeror will be entitled to pursue the New Opportunity only if (i) the Offeror has received a written notice from us declining the New Opportunity and confirming that the New Opportunity would not constitute competition with our core business, or (ii) the Offeror has not received the notice from us within ten Business Days from our receipt of the Offer Notice;
- (c) if there is a material change in the terms and conditions of the New Opportunity pursued by the Offeror, the Offeror will refer to the New Opportunity as so revised to us in the manner as set out above; and

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (d) upon receipt of the Offer Notice, we will seek opinions and decisions from a committee of our Board consisting of Directors who do not have a material interest in the matter (the “**Independent Board Committee**”) as to whether (a) such New Opportunity would constitute competition with our core business, and (b) it is in the interest of our Company and our Shareholders as a whole to pursue the New Opportunity.

General undertakings

To ensure the performance of the above non-competition undertakings given under the Deed of Non-competition, each of the Covenantors shall:

- (a) when required by our Company, provide all information necessary for the Independent Board Committee to conduct annual examination with regard to the compliance of the terms of the Deed of Non-competition and the enforcement thereof;
- (b) procure our Company to disclose to the public either in our annual report or issuing a public announcement in relation to any decisions made by the Independent Board Committee with regard to the compliance of the terms of the Deed of Non-competition and the enforcement of it;
- (c) where the Independent Board Committee shall deem fit, make a declaration in relation to the compliance of the terms of the Deed of Non-competition in our annual report, and ensure that the disclosure of information relating to compliance with the terms of the Deed of Non-competition and the enforcement of it are in accordance with the requirements of the GEM Listing Rules;
- (d) where the Independent Board Committee has rejected the New Opportunity referred to by the Offeror as stipulated above regardless of whether the Offeror would thereafter invest or participate in such New Opportunity, procure our Company to disclose to the public either in the annual or interim report of our Company or an announcement the decision of the Independent Board Committee regarding the decision on the New Opportunity and the basis thereof; and
- (e) that during the period when the Deed of Non-competition is in force, fully and effectually indemnify our Company against any losses, liabilities, damages, costs, fees and expenses as a result of any breach on the part of such Covenantor of any statement, warrant or undertaking made under the Deed of Non-competition.

In respect of the above undertakings, our Company confirms that, if the Independent Board Committee has rejected the New Opportunity referred to by the Offeror as stipulated above regardless of whether the Offeror would thereafter invest or participate in such New Opportunity, it will disclose to the public either in the annual or interim report of our Company or an announcement the decision of the Independent Board Committee regarding the decision on the New Opportunity and the basis thereof.

SUBSTANTIAL SHAREHOLDERS

Immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account of the Shares which may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme), the following persons/entities will have an interest or a short position in the Shares or the underlying Shares which would be required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group:

Name of Shareholder	Capacity/ Nature of interest	Number of Shares held immediately after completion of the Capitalisation Issue and the Share Offer	Percentage of Shareholding held immediately after completion of the Capitalisation Issue and the Share Offer
Infinite Force (<i>Note 1</i>)	Beneficial owner	637,500,000 Shares	63.75%
Mr. Li (<i>Note 1</i>)	Interest of controlled corporation	637,500,000 Shares	63.75%
Ms. Fong Wing Yan (<i>Note 2</i>)	Interest of spouse	637,500,000 Shares	63.75%
New Express (<i>Note 3</i>)	Beneficial owner	112,500,000 Shares	11.25%
China Investment and Finance Group Limited (<i>Note 3</i>)	Interest of controlled corporation	112,500,000 Shares	11.25%

Notes:

- (1) Infinite Force is the registered owner of 637,500,000 Shares, representing 63.75% of our issued share capital immediately upon completion of the Capitalisation Issue and the Share Offer (without taking into account any Share which may be issued upon exercise of any option which may be granted under the Share Option Scheme). As Mr. Li owns the entire issued share capital of Infinite force, he is deemed to be interested in all the Shares registered in the name of Infinite Force under the SFO.
- (2) Ms. Fong Wing Yan is the spouse of Mr. Li. Under the SFO, Ms. Fong Wing Yan is deemed to be interested in the same number of Shares in which Mr. Li is interested.
- (3) New Express is wholly owned by China Investment and Finance Group Limited, a company incorporated in the Cayman Islands and whose shares are listed on the Stock Exchange (stock code: 1226). Under the SFO, China Investment and Finance Group Limited is deemed to be interested in the Shares registered in the name of New Express.

Save as disclosed above, our Directors are not aware of any person who will, immediately following the completion of the Capitalisation Issue and the Share Offer (without taking into account of the Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), have an interest or short position in the Shares or the underlying Shares which would be required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group.

SHARE CAPITAL

SHARE CAPITAL

The following table sets forth information with respect to the share capital of our Company immediately following the Capitalisation Issue and the Share Offer, without taking into account any Shares which may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme:

<i>Authorised share capital:</i>		<i>HK\$</i>
<u>10,000,000,000</u>	Shares	<u>100,000,000</u>
<i>Shares in issue or to be issued, fully paid or credited as fully paid:</i>		
20,000	Shares in issue as at the date of this prospectus	200
749,980,000	Shares to be issued under the Capitalisation Issue	7,499,800
<u>250,000,000</u>	Shares to be issued under the Share Offer	<u>2,500,000</u>
Total: <u>1,000,000,000</u>	Shares	<u>10,000,000</u>

Assumptions

The above table assumes the Capitalisation Issue and the Share Offer become unconditional and the issue of Shares pursuant thereto is made as described herein. It does not take into account any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, or any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates granted to our Directors to allot and issue or repurchase Shares referred to in the paragraph headed “General mandate to issue Shares” or the paragraph headed “General mandate to repurchase Shares” below in this section, as the case may be.

Minimum public float

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of the Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of 25% of the issued share capital of our Company in the hands of the public (as defined in the GEM Listing Rules).

RANKING

The Offer Shares will rank *pari passu* in all respects with all other Shares now in issue or to be issued as mentioned in this prospectus, and will rank in full for all dividends and other distributions hereafter declared, paid or made on the Shares in respect of a record date which falls after the date of this prospectus save for any entitlement under the Capitalisation Issue.

SHARE CAPITAL

Except as disclosed in this prospectus, no share or loan capital of our Company or any of our subsidiaries is under any option or is agreed conditionally or unconditionally to be put under any option.

CAPITALISATION ISSUE

Pursuant to the resolutions in writing of our Shareholders passed on 11 May 2018, subject to the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorised to allot and issue a total of 749,980,000 Shares to the holders of shares on the register of members of our Company as of 11 May 2018 in proportion to their respective shareholdings, credited as fully paid at par by way of capitalisation of the sum of HK\$7,499,800 standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the Shares in issue.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme, the principal terms of which are summarised in the paragraph headed “Statutory and General Information — Share Option Scheme” in Appendix VI to this prospectus. As at the Latest Practicable Date, no option had been granted under the Share Option Scheme.

GENERAL MANDATE TO ISSUE SHARES

Conditional on the conditions as stated in the paragraph headed “Structure and conditions of the Share Offer — Conditions of the Share Offer” in this prospectus being fulfilled, our Directors have been granted a general unconditional mandate to allot, issue and deal with the Shares and to make or grant offers, agreements or options which might require such Shares to be allotted and issued or dealt with subject to the requirements that the aggregate number of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued (otherwise than pursuant to a rights issue, or scrip dividend scheme or similar arrangements, or a specific authority granted by our Shareholders) shall not exceed:

- (a) 20% of the aggregate number of Shares in issue immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme); and
- (b) the aggregate number of Shares repurchased (if any) pursuant to the authority granted to our Directors as referred to in the paragraph headed “General mandate to repurchase Shares” below in this section.

SHARE CAPITAL

This mandate does not cover the Shares to be allotted, issued, or dealt with under a rights issue or upon the exercise of any options which may be granted under the Share Option Scheme. This general mandate to issue Shares will remain in effect until whichever is the earliest of:

- (a) the conclusion of our Company's next annual general meeting;
- (b) the expiration of the period within which our Company's next annual general meeting is required to be held by any applicable laws of the Cayman Islands or the Articles; or
- (c) it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

For further details of this general mandate, please refer to the paragraph headed "A. Further information about our Company and our subsidiaries — 3. Written resolutions of our Shareholders passed on 11 May 2018" in Appendix VI to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Conditional on the fulfillment of the conditions as stated in the paragraph headed "Structure and conditions of the Share Offer — Conditions of the Share Offer" in this prospectus, our Directors have been granted a general unconditional mandate to exercise all the powers to repurchase Shares with an aggregate number of not more than 10% of the aggregate number of the Shares in issue immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange or on any other stock exchange on which the Shares may be listed as recognised by the SFC and the Stock Exchange for this purpose and made in connection with all applicable laws, rules and regulations and the requirements of the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the paragraph headed "Statutory and General Information — Repurchase by our Company of our own securities" in Appendix VI to this prospectus.

The general mandate to repurchase Shares will remain in effect until whichever is the earliest of:

- (a) the conclusion of our Company's next annual general meeting;
- (b) the expiration of the period within which our Company's next annual general meeting is required to be held by any applicable laws of the Cayman Islands or the Articles; or
- (c) it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

SHARE CAPITAL

For further details of this general mandate, please refer to the paragraph headed “A. Further information about our Company and our subsidiaries — 3. Written resolutions of our Shareholders passed on 11 May 2018” in Appendix VI to this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

The circumstances under which general meeting and class meeting are required are provided in the Articles. For details, please refer to Appendix V to this prospectus.

FINANCIAL INFORMATION

You should read this section in conjunction with our Group's audited consolidated financial statements, including the notes thereto, as set out in the Accountants' Report set out in Appendix I to this prospectus. Our Group's financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards. You should read the entire accountants' report and not merely rely on the information contained in this section.

The following discussion and analysis contains certain forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by our Group in light of our Group's experience and perception of historical trends, current conditions and expected future developments, as well as other factors our Group believes are appropriate under the circumstances. However, whether actual outcomes and developments will meet our Group's expectations and projections depend on a number of risks and uncertainties over which our Group does not have control. For further information, see the section headed "Risk factors" in this prospectus.

OVERVIEW

We are a Hong Kong-based toy company which carries out design, marketing, distribution and retail sales of toys and related products. Our product portfolio during the Track Record Period included (i) a variety of premium and general class figures based on popular third party owned ACG characters; and (ii) other related products such as pens and hair ties. Our Group's revenue is derived from sales of (i) ODM toys produced according to our customers' specifications and requirements; (ii) imported toys which were sourced from overseas licensees; and (iii) our own licensed toys developed by us based on license rights obtained from various licensors of US entertainment and toy brands. Our ACG figures, primarily targeted at adult consumers, could generally pose in various positions and gestures with movable joints and accessories.

The majority of our revenue during the Track Record Period was derived from sales to our largest customer group (namely Customer Group A) based in Japan. Our revenue increased by approximately 11.2% from approximately HK\$123.2 million for the year ended 31 March 2016 to approximately HK\$136.9 million for the year ended 31 March 2017. The increase in revenue was mainly due to the increase in sales of distribution of imported toys and own licensed toys for the year ended 31 March 2017.

Our revenue decreased by approximately 11.8% from approximately HK\$106.5 million for the nine months ended 31 December 2016 to approximately HK\$94.0 million for the nine months ended 31 December 2017. The decrease in revenue was mainly due to the decrease in revenue from (i) sales of ODM toys; (ii) distribution of imported toys; and (iii) sales of own licensed toys for the nine months ended 31 December 2017.

Our profit for the year decreased by approximately 38.3% from approximately HK\$18.3 million for the year ended 31 March 2016 to approximately HK\$11.3 million for the year ended 31 March 2017. The decrease in profit was mainly due to the listing expenses of approximately HK\$12.5 million.

Our profit for the period decreased by approximately 6.3% from approximately HK\$12.0 million for the nine months ended 31 December 2016 to approximately HK\$11.2 million for the nine months ended 31 December 2017. The decrease in profit was mainly due to (i) decrease in gross profit of approximately HK\$3.6 million; and (ii) increase in administrative expenses of approximately HK\$1.1 million which were partially net off with (i) the decrease in listing expenses of approximately HK\$1.2 million; (ii) the increase in other net income of approximately HK\$2.1 million and (iii) the increase in valuation gain on investment property of approximately HK\$0.4 million.

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RECENT DEVELOPMENT AND MATERIAL ADVERSE CHANGE

Our business model and cost structure remain largely unchanged subsequent to the Track Record Period. Subsequent to the Track Record Period and up to the Latest Practicable Date, we continued to carry out (i) sales of ODM toys; (ii) distribution of imported toys; and (iii) sales of own licensed toys.

In August 2017, we had launched sales for a series of mini-figures based on a range of ACG characters featuring in a superhero-themed comic book series based on our license agreement with Licensor B. Our new figures series based on a US superhero ACG character under the renewed license agreement with Licensor A was launched for sales under the “SENTINEL/千值練” brand in October 2017. In December 2017, we launched a figure based on new items to an ACG character featuring in a robot-themed comic series based on our license agreement with Licensor C under the “FLAME TOYS” brand.

After the Track Record Period and up to the Latest Practicable Date, we have continued to put on sale our existing series of own licensed ACG figures based on our available licenses. For our “TOPI” brand, we launched five existing figures series based on a range of ACG characters featuring in a superhero-themed comic book series under our license agreement with Licensor A in early 2018.

To promote our toy brands and to further expand our own licensed product portfolio, going forward, (i) we intend to introduce, under the “SENTINEL/千值練” brand, new items to our existing popular figures series based on a ACG character featuring in a classic superhero comic series under a license agreement with Licensor A; (ii) we intend to introduce, under our “TOPI” brand, new items to mini-toys and figures series based on a range of classic animation characters of Licensor A, and toy cars series based on a range of ACG characters featuring in an animated television series of Licensor B; and (iii) we intend to develop, under the “FLAME TOYS” Brand, one new mini-toys lines based on the robot-themed ACG characters, with one additional robot-themed ACG character joining the cast, under the license agreement with Licensor C and to develop two new figures lines based on ACG characters featuring in a range of classic animation characters and a classic superhero comic series under the license agreements with Licensor A. The aforesaid series are scheduled to be launched for sales by 31 March 2019.

Save as the expenses of approximately HK\$0.7 million was incurred in connection with the Listing for the remaining period of the year ended 31 March 2018, our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2017 (being the date to which the latest audited consolidated financial statements of our Group were made up) and up to the date of this prospectus.

Based on our Group’s unaudited management accounts for the year ended 31 March 2018, excluding listing expenses, our Group’s net profit decreased from approximately HK\$23.8 million for the year ended 31 March 2017 to approximately HK\$21.3 million for the year ended 31 March 2018, representing a decrease of approximately 10.4%. The decrease is mainly due to (i) the decrease of revenue of approximately HK\$4.7 million mainly attributable to the decrease of sales of own licensed toy; and (ii) the increase of administrative expenses of approximately HK\$0.8 million mainly attributable to the increase in salary and number of staff; and partially offset by the increase of other income of approximately HK\$1.8 million mainly attributable to rental income of invested property.

In view of the popularity of the Armored Superhero Figures, our Group expects to launch the new Armored Superhero Figures in December 2018. In line with our typical practice, we would conduct the pre-ordering of our own licensed toys three months prior to the formal launch of the products. As at the Latest Practicable Date, we have already submitted our product proposal and design for the new Armored Superhero Figures for Licensor A’s approval, and target to conduct the pre-ordering sales of the new Armored Superhero Figures in September 2018. The expected sales quantity and amount of our new

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Armored Superhero Figures are determined with reference to the sales performance of figures related to the same ACG figures in the past. In particular, in the second quarter of the year of 2015, a movie featuring various superheroes, including the Armored Superhero, was launched in April 2015. Subsequently, we have launched our Armored Superhero Figures in the second quarter of the year of 2016. Such Armored Superhero Figures had contributed a total revenue of approximately HK\$8.7 million to us during the Track Record Period. As a sequel of the same movie was launched in April 2018, we have intended to launch a new line of Armored Superhero Figures in December 2018. Therefore, our Directors are confident that the sales performance of the new Armored Superhero Figures will be consistent with the historical financial performance of our similar figures.

SUMMARY RESULTS OF OPERATIONS

The following table sets out a summary of our consolidated statements of profit or loss and other comprehensive income for each of the two years ended 31 March 2017 and the nine months ended 31 December 2016 and 2017 as derived from the Accountants' Report in Appendix I to this prospectus, and should be read in conjunction with the Accountants' Report and this section.

Consolidated statements of profit or loss and other comprehensive income

	For the year ended 31 March		For the nine months ended 31 December	
	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000 (unaudited)	2017 HK\$'000
Revenue	123,154	136,888	106,538	94,002
Cost of sales	<u>(90,942)</u>	<u>(96,766)</u>	<u>(75,961)</u>	<u>(66,992)</u>
Gross profit	32,212	40,122	30,577	27,010
Other net income	2,567	2,187	572	2,680
Selling expenses	(3,146)	(3,838)	(3,136)	(3,346)
Administrative expenses	(9,102)	(11,478)	(8,188)	(9,327)
Listing expenses	-	(12,501)	(5,034)	(3,803)
Valuation (loss)/gain on investment property	<u>(360)</u>	<u>1,360</u>	<u>590</u>	<u>1,000</u>
Operating profit	22,171	15,852	15,381	14,214
Finance costs	<u>(74)</u>	<u>(113)</u>	<u>(82)</u>	<u>(81)</u>
Profit before income tax	22,097	15,739	15,299	14,133
Income tax expense	<u>(3,838)</u>	<u>(4,467)</u>	<u>(3,298)</u>	<u>(2,892)</u>
Profit and total comprehensive income for the year	<u>18,259</u>	<u>11,272</u>	<u>12,001</u>	<u>11,241</u>
Basic and diluted earnings per share (HK\$)	<u>913</u>	<u>564</u>	<u>600</u>	<u>562</u>

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BASIS OF PREPARATION

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands under the laws of the Cayman Islands on 16 November 2016. Through the Reorganisation as further explained in the section headed “History, reorganisation and corporate structure — Reorganisation” in this prospectus, our Company became the holding company of the subsidiaries now comprising our Group on 7 March 2017. The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows are prepared as if the current group structure had been in existence throughout the Track Record Period. The consolidated statements of financial position as at 31 March 2016, 31 March 2017, 31 December 2017 and unaudited management accounts as at 31 March 2018, present the assets and liabilities of the companies now comprising our Group, as if the current group structure had been in existence at those dates. The consolidated financial statements, which are presented in Hong Kong dollars, have been prepared in accordance with HKFRSs issued by HKICPA and the disclosure requirements of the GEM Listing Rules and the Companies Ordinance.

PRINCIPAL FACTORS AFFECTING THE RESULTS OF OPERATIONS AND FINANCIAL CONDITION OF OUR GROUP

Our financial condition and results of operations have been, and will continue to be, affected by a number of factors, including those set out below and in the section headed “Risk factors” in this prospectus.

Reliance on our customer

We are reliant on sales of ODM toys to our largest customer group. Our revenue generated from sales of ODM toys for each of the two years ended 31 March 2017 and the nine months ended 31 December 2017 amounted to approximately HK\$85.5 million, HK\$83.9 million and HK\$61.3 million, respectively, which accounted for approximately 69.5%, 61.3% and 65.2% of our total revenue for these periods, respectively. During each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, the revenue derived from sales of ODM toys to our largest customer, namely Customer Group A, accounted for approximately 63.8%, 60.2% and 67.7% of our total revenue, respectively. We expect revenue from Customer Group A to continue to account for a significant portion of our revenues.

Given that purchase orders from Customer Group A are negotiated on case-by-case basis, we may face pressure from Customer Group A in seeking price reductions, financial incentives or more favourable terms in the purchases. Any of these could also materially and adversely affect our business, financial condition and operating results. In addition, if Customer Group A experiences financial difficulties, and ceases to do business with us or significantly reduces the amount of purchase from us, it could have a material adverse effect on our business, financial condition and operating results.

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Relationship with our suppliers

During the Track Record Period, we purchased imported toys mainly from Supplier Group C, another two Japan-based licensees (namely Supplier F and Supplier G) and Customer Group B (which was also our supplier of imported toys during the Track Record Period). Our purchase from these suppliers accounted for approximately 17.5%, 22.1% and 15.4% of our total purchase for each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, respectively. If these suppliers reduce the supplies of imported toys to us or terminate their business relationships with us, we may not be able to identify alternative suppliers for imported toys of the same grading and quality and/or at similar commercial terms, or at all. Thus, our operating results and financial performance may be adversely affected.

Relationship with our distributors

We derive a significant portion of our revenue from sales of imported toys and our own licensed toys to distributors, which accounted for approximately 25.9%, 29.2% and 26.2% of our revenue for each of the two years ended 31 March 2017 and the nine months ended 31 December 2017, respectively.

We cannot give assurance that our distributors will operate their distribution channels and logistic capabilities in a timely and sufficient manner to benefit sales of our products. Further, we do not have any long-term purchase commitment from our distributors. There is no guarantee that we will be able to maintain our existing relationships with distributors or to develop relationships with replacement distributors on acceptable terms. There can also be no assurance that our existing distributors will be able to maintain past levels of sales with us or at all. We cannot guarantee that our distributors would continue to make purchase from us at the current level or at all. Any termination or discontinuation of business relationship with, or significant decrease in purchase from, our distributors could have a material and adverse effect on us.

Furthermore, there is no assurance that we will be successful in managing our distributors and detecting non-compliance with our distribution arrangements by them (if applicable), which may in turn result in harmful effect on our brands and products. Our distributors may also distribute toy products of other brands that compete with our products for consumer spending and we cannot give assurance that our distributors will prioritise their marketing and distribution resources to benefit sales of our products.

Changes in fair value of investment property

Our results may fluctuate due to increases or decreases in the appraised fair value of our investment property. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the consolidated statement of profit or loss. However, fair value gains do not change our overall cash position or our liquidity as long as we continue to hold such investment property.

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The amount of revaluation adjustments has been, and will continue to be, subject to market fluctuations. We cannot assure the changes in market conditions (if any) will continue to create fair value gains on our investment property at previous levels or at any level at all, or that the fair value of our investment property will not decrease in the future or that our investment property will increase substantially or at all. There is no assurance that the fair value gains (if any) on our investment property will increase due to any increase in our portfolio of investment property and/or increase overall value appreciation of property. In addition, fair value gains of our investment property are based on valuations performed by our property valuer and are calculated based on assumptions adopted by them. We cannot assure that the assumptions used by our property valuer will be realised.

Listing Expenses

The total amount of expenses in relation to the Listing is approximately HK\$26.3 million, of which approximately HK\$8.3 million is directly attributable to the issue of the Offer Shares and is expected to be capitalised and accounted for as a deduction from equity upon Listing. The remaining amount of approximately HK\$18.0 million, which cannot be so capitalised and accounted for, were or are expected to be recognised in our consolidated statements of profit or loss and other comprehensive income, of which (i) approximately HK\$12.5 million and HK\$3.8 million has been charged during the year ended 31 March 2017 and the nine months ended 31 December 2017, respectively; (ii) approximately HK\$0.7 million was incurred in the three months ended 31 March 2018 according to the unaudited management accounts for the three months ended 31 March 2018; and (iii) approximately HK\$1.0 million is expected to be incurred in the year ending 31 March 2019.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Details of the principal accounting policies applied in the preparation of our financial information are set out in the Accountants' Report contained in Appendix I to this prospectus.

The preparation of our financial information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires our management to exercise judgement in the process of applying the accounting policies of our Group. 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 following paragraphs summarise the critical accounting policies and estimated applied in the preparation of our Group's financial information.

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Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to our Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) *Sale of goods*

Revenue is recognised when goods are delivered at the customers' premises for domestic sales or when goods are shipped on board for export sales which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue is after deduction of any trade discounts.

(ii) *Rental income from operating leases*

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in the profit or loss as an integral part of the aggregate net lease payments receivable.

(iii) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

Translation of foreign currencies

Foreign currency transactions during the year/period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies and non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated to write off the cost of items of property, plant and equipment using the straight-line method over their estimated useful lives as follows:

- Leasehold land classified as held under finance lease is depreciated over the unexpired term of lease

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- Building situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives
- Leasehold improvements 5 years
- Office equipment 5 years
- Motor vehicles 30%
- Moulds Shorter of the licensed period of 2 to 3 years or the remaining licensed period

Gain or loss arising from disposal or retirement of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Both the useful life of an asset and its residual value, if any, are reviewed annually.

Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Trade and other payables

Trade and other payables are initially recognised at fair value, and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Borrowings

Borrowing costs are expensed in the period in which they are incurred.

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Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, our Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy, the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, our Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, our Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

MANAGEMENT DISCUSSION AND ANALYSIS

Description of selected items of our Group's profit or loss and the comparison of results of operation for the two years ended 31 March 2017 and the nine months ended 31 December 2016 and 2017.

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Revenue

Revenue by segments

Revenue represents income recognised from the provision of (i) sales of ODM toys; (ii) distribution of imported toys; and (iii) sales of own licensed toys which in aggregate amounted to approximately HK\$123.2 million, HK\$136.9 million, HK\$106.5 million and HK\$94.0 million for each of the two years ended 31 March 2017 and the nine months ended 31 December 2016 and 2017, respectively. The table below sets forth a breakdown of our revenue by business segments during the Track Record Period:

	For the year ended				For the nine months ended			
	31 March		31 March		31 December		31 December	
	2016	2017	2016	2017	2016	2017	2016	2017
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)							
Sales of ODM toys ^(Note 1)	85,525	69.5	83,888	61.3	65,518	61.5	61,282	65.2
Distribution of imported toys ^(Note 2)	22,675	18.4	27,580	20.1	23,898	22.4	16,260	17.3
Sales of own licensed toys ^(Note 3)	14,954	12.1	25,420	18.6	17,122	16.1	16,460	17.5
Total revenue	123,154	100	136,888	100	106,538	100	94,002	100

Notes:

- Our ODM toys are classified into three categories, namely (i) premium ODM toys; (ii) general class ODM toys; and (iii) moulds for ODM toys.
- Our imported toys are classified into two categories, namely (i) premium imported toys; and (ii) general class imported toys.
- Our own licensed toys are classified into three categories under the brands of (i) "SENTINEL/千值練"; (ii) "TOPI"; and (iii) "FLAME TOYS". During the Track Record Period, "SENTINEL/千值練" brand toys included (i) a series of brand superhero toys; and (ii) a series of polygon toys; "TOPI" brand toys included (i) a mini-toys series; (ii) a figure series; and (iii) other products; and "FLAME TOYS" brand toys included a robotic figure series.

Our services to our ODM customers mainly include (i) providing product design solutions; (ii) developing prototypes and moulds; (iii) supervising the outsourced production process; and (iv) implementing various quality control measures. Sales of ODM toys contributed significantly to our revenue during the Track Record Period, representing approximately 69.5%, 61.3%, 61.5% and 65.2% of our total revenue for each of the two years ended 31 March 2017 and the nine months ended 31 December 2016 and 2017, respectively. With a view to enhancing and diversifying our core business, our Group has started to engage in the distribution of imported toys since 2012. Distribution of imported toys during the Track Record Period representing approximately 18.4%, 20.1%, 22.4% and 17.3% of our total revenue for each of the two years ended 31 March 2017

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and the nine months ended 31 December 2016 and 2017, respectively. To expand our own licensed product portfolio, since 2013, our Group has started to cooperate with the licensors of various US entertainment brands and develop our own licensed toys. Our sales of own licensed toys are generally based on certain ACG characters, which represent approximately 12.1%, 18.6%, 16.1% and 17.5% of our total revenue for each of the two years ended 31 March 2017 and the nine months ended 31 December 2016 and 2017, respectively.

Period to period comparison of results of operations

Year ended 31 March 2016 compared to the year ended 31 March 2017

(i) Sales of ODM toys

Our revenue from sales of ODM toys decreased slightly from approximately HK\$85.5 million for the year ended 31 March 2016 to approximately HK\$83.9 million for the year ended 31 March 2017, representing a decrease of approximately 1.9%.

The decrease in our revenue from sales of ODM toys was caused by (i) the decrease in our revenue from sales of premium ODM toys of approximately HK\$2.8 million (mainly due to the decrease in its sales volume); and (ii) the decrease in our revenue from sales of moulds for ODM toys of approximately HK\$0.9 million (mainly due to the decrease in its average selling price), which is partly offset by the increase in our revenue from sales of general class ODM toys of approximately HK\$2.1 million (mainly due to the increase in its sales volume), details of which are set out as follows:

- (i) the sales volume of our premium ODM toys decreased from 54,737 units in the year ended 31 March 2016 to 26,213 units in the year ended 31 March 2017, representing a decrease of approximately 52.1%. Such decrease was mainly because the product portfolio of Customer Group A was more focused on general class ACG figures in the year ended 31 March 2017 based on their license rights on hands during the relevant period. Accordingly, we received less purchase orders from Customer Group A for premium ODM toys in the year ended 31 March 2017;
- (ii) the average selling price of our moulds for ODM toys decreased from approximately HK\$352,000 in the year ended 31 March 2016 to HK\$293,000 in the year ended 31 March 2017, representing a decrease of approximately 16.8%. In general, our moulds for premium ODM toys generally command a higher selling price as compared to that for general class ODM toys because the design and development process of moulds for premium ODM toys typically involves longer time period and requires more design and quality control efforts. Our Directors consider that as we design and produce less premium ODM toys in the year ended 31 March 2017, the average selling price of our moulds for ODM toys has decreased in the same period accordingly; and

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- (iii) the sales volume of our general class ODM toys increased from 1,172,751 units in the year ended 31 March 2016 to 1,342,452 units, representing an increase of approximately 14.5%. Such increase was mainly because we received higher volume of purchase orders from Customer Group A for products with less sophisticated designs or limited number of moveable joints and components such as human-form figures.

Nine months ended 31 December 2016 compared to the nine months ended 31 December 2017

Our revenue from sales of ODM toys decreased from approximately HK\$65.5 million for the nine months ended 31 December 2016 to approximately HK\$61.3 million for the nine months ended 31 December 2017, representing a decrease of approximately 6.5%.

Such decrease was mainly caused by the decrease in our revenue from sales of (i) general class ODM toys of approximately HK\$4.2 million; and (ii) premium ODM toys of approximately HK\$0.5 million, while partially set off by the increase in sales of moulds for ODM toys of approximately HK\$0.5 million, details of which are set out as follows:

- (i) the revenue from sales of our general class ODM toys decreased by approximately HK\$4.2 million, representing a decrease of approximately 9.4%, despite the increase in the sales volume of our general class ODM toys by 52,606 units. Such decrease in revenue was mainly due to the decrease of average selling price of our general class ODM toys as we received relatively higher volume of purchase orders from Customer Group A for products with lower average selling price which require less sophisticated designs or limited number of moveable joints and components;
- (ii) the revenue from sales of our premium ODM toys decreased from approximately HK\$4.8 million in the nine months ended 31 December 2016 to HK\$4.3 million in the nine months ended 31 December 2017, representing a decrease of approximately 9.4%, while the sales volume increased from 10,622 units in the nine months ended 31 December 2016 to 10,839 units in the nine months ended 31 December 2017. Such decrease in revenue was mainly due to the decrease in average selling price of our premium ODM toys as we received purchase orders from Sentinel Japan for two series of figures with relatively lower selling price and higher quantity in the nine months ended 31 December 2017; and
- (iii) the revenue of sales of our moulds for ODM toys slightly increased by approximately HK\$0.5 million from HK\$15.7 million for the nine months ended 31 December 2016 to HK\$16.2 million for the nine months ended 31 December 2017.

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(ii) *Distribution of imported toys*

Year ended 31 March 2016 compared to the year ended 31 March 2017

Our revenue from distribution of imported toys increased by approximately HK\$4.9 million from approximately HK\$22.7 million for the year ended 31 March 2016 to approximately HK\$27.6 million for the year ended 31 March 2017, representing an increase of approximately 21.6%.

The increase in our revenue from distribution of imported toys was caused by the increase in our revenue from sales of general class imported toys of approximately HK\$6.1 million (mainly due to the increase in its sales volume), which is partly offset by the decrease in our revenue from sales of premium imported toys of approximately HK\$1.2 million (mainly due to the decrease in its sales volume), details of which are set out as follows:

- (i) the sales volume of our general class imported toys increased from 29,453 units in the year ended 31 March 2016 to 74,142 units in the year ended 31 March 2017, representing an increase of approximately 151.7%. Such increase was mainly attributable to our strategy in expanding our end-consumer base by sourcing more mass-market toys from Sentinel Japan and Supplier G in the year ended 31 March 2017. In the year ended 31 March 2017, we have increased our purchase of mass-market toys from Sentinel Japan, and have started to further diversify our supplier base by purchasing general class imported toys from a new supplier, namely Supplier G. Such mass-market toys include figures with less sophisticated designs, hair ties, tumblers and rubber magnets, and are targeted at general end-consumers. In particular, the sales of our imported toys sourced from Supplier G increased from nil in the year ended 31 March 2016 to approximately HK\$1.7 million in the year ended 31 March 2017. Our Directors believe that this contributed to higher sales volume of our general imported toys in the year ended 31 March 2017;
- (ii) our Directors consider that the increase in revenue from distribution of imported toys was also partly attributable to the increase in the number of our distributors. The total number of our distributors had increased from 43 as at 31 March 2016 to 53 as at 31 March 2017. Further, the revenue from our sales of imported toys through our distributors increased from approximately HK\$18.5 million for the year ended 31 March 2016 to HK\$21.8 million for the year ended 31 March 2017; and
- (iii) the sales volume of our premium imported toys decreased from 14,187 units in the year ended 31 March 2016 to 10,728 units in the year ended 31 March 2017, representing a decrease of approximately 24.4%. Such decrease the year ended 31 March 2017 was largely due to our strategy in adjusting the composition of our product portfolio. In the year ended 31 March 2017, our Directors noticed that toy licensees in Japan (including but not limited to Customer Group A) were more focused on developing licensed figures which were targeted as

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mass-market consumers and command a relatively lower selling prices. As the consumers' preference in the Hong Kong and other overseas ACG toys market (including the PRC and Taiwan) has often been influenced by the Japanese ACG market, our Director considered that general class licensed toys would be relatively more popular in the year ended 31 March 2017. Therefore, our Group had decided to fine tune our procurement policy and purchased lesser premium imported toys for resale in the same period.

Nine months ended 31 December 2016 compared to the nine months ended 31 December 2017

Our revenue from distribution of imported toys decreased by approximately HK\$7.6 million from approximately HK\$23.9 million for the nine months ended 31 December 2016 to approximately HK\$16.3 million for the nine months ended 31 December 2017, representing a decrease of approximately 32.0%.

The decrease in our revenue from distribution of imported toys was caused by (i) the decrease in our revenue from sales of general class imported toys of approximately HK\$3.6 million (mainly due to the decrease in its sales volume); and (ii) the decrease in our revenue from sales of premium imported toys of approximately HK\$4.0 million (mainly due to the decrease in its sales volume), details of which are set out as follows:

- (i) the revenue of distribution of our general class imported toys decreased by approximately HK\$3.6 million, representing a decrease of approximately 36.4%, while the sales volume decreased from 54,956 units in the nine months ended 31 December 2016 to 26,465 units in the nine months ended 31 December 2017. The decrease in revenue was mainly due to the decrease in sales of two general ACG figure series sourced from Sentinel Japan and Customer Group B by approximately HK\$0.6 million and HK\$1.8 million respectively in the nine months ended 31 December 2017 as compared to the nine months ended 31 December 2016; and
- (ii) the revenue of distribution of our premium imported toys decreased by approximately HK\$4.0 million, representing a decrease of approximately 28.8%, with a decrease in the sales volume from 12,006 units in the nine months ended 31 December 2016 to 6,869 units in the nine months ended 31 December 2017 mainly due to the decrease in sales of two series of premium imported toys sourced from Sentinel Japan by approximately HK\$1.8 million and HK\$0.4 million respectively in the nine months ended 31 December 2017 as compared to the nine months ended 31 December 2016.

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(iii) Sales of own licensed toys

Year ended 31 March 2016 compared to the year ended 31 March 2017

Our revenue from sales of own licensed toys increased by approximately HK\$10.5 million from approximately HK\$15.0 million for the year ended 31 March 2016 to approximately HK\$25.4 million for the year ended 31 March 2017, representing an increase of approximately 70.0%. The increase in such revenue was mainly due to the (i) increase in sales of “SENTINEL/千值練” brand products mainly because our Group had introduced new series of figures based on a US superhero ACG character of Licensor A and launched a new series of polygon figures based on a range of classic animation characters of Licensor A; and (ii) increase in sales volume and average selling price of “TOPI” brand products. In particular, the sales from our own licensed figures based on the US superhero ACG character increased from HK\$12.6 million for the year ended 31 March 2016 to HK\$19.6 million for the year ended 31 March 2017, which was attributable to our efforts in (i) developing new series of products items based on such character; and (ii) relaunching previous popular product series. The sales volume of own licensed figures based on the US superhero ACG character increased from 14,490 units for the year ended 31 March 2016 to 25,460 units for the year ended 31 March 2017.

In order to broaden our own licensed product portfolio, our “TOPI” brand mini-toys series and “SENTINEL/千值練” brand polygon figures were launched in February 2016 and April 2016 respectively. The revenue contribution from these two lines of products, in aggregate, amounted to HK\$2.3 million (only for the “TOPI” brand mini-toys series) and HK\$7.0 million for the year ended 31 March 2016 and the year ended 31 March 2017 respectively.

Nine months ended 31 December 2016 compared to the nine months ended 31 December 2017

Our revenue from sales of own licensed toys decreased by approximately HK\$0.7 million from approximately HK\$17.1 million for the nine months ended 31 December 2016 to approximately HK\$16.5 million for the nine months ended 31 December 2017, representing a decrease of approximately 3.9%. The decrease in such revenue was mainly due to (i) decrease in sales of the “SENTINEL/千值練” brand superhero figures of approximately HK\$2.5 million as a result of the decrease in sales volume of such products; and (ii) decrease in sales of “TOPI” brand toys of approximately HK\$1.2 million, which was due to the decrease in sales volume of such products since we introduced less new series in the first six months of 2017 as the license agreement expired on 30 June 2017, which subsequently was renewed in July 2017, and was partially offset by the sales of our “FLAME TOYS” brand toys which were launched in December 2017.

The decrease in the sales of own licensed toys in the year ended 31 March 2018 of approximately HK\$5.7 million as compared to the year ended 31 March 2017 was mainly due to the relatively significant amount of sales recognised for one of the figures (featuring armor fit and accessories) based on a US superhero character of Licensor A (the “Armored Superhero Figures”) in the year ended 31 March 2017. In particular, this figure was formally launched for sales in March 2016, and contributed to revenue of approximately HK\$5.0 million for the year ended 31 March 2017. This Armored Superhero Figures was sold out in July 2016, and hence no revenue has been recognised therefrom in the year ended 31 March 2018.

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Geographical Markets

During the Track Record Period, we carried out the sales of ODM toys, distribution of imported toys and sales of own licensed toys in Hong Kong, Japan, USA, PRC, Taiwan and other regions. The following table sets forth our revenue by geographical market for the periods indicated:

	For the year ended 31 March				For the nine months ended 31 December			
	2016		2017		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)							
Revenue (by location of customers)								
Hong Kong	13,509	11.0	22,896	16.7	19,327	18.1	17,017	18.1
Japan	82,439	66.9	85,396	62.4	65,726	61.7	63,617	67.7
USA	6,843	5.5	5,968	4.3	5,619	5.3	1,296	1.4
PRC	4,742	3.9	10,622	7.8	6,435	6.0	4,446	4.7
Others	15,621	12.7	12,006	8.8	9,431	8.9	7,626	8.1
Total revenue	123,154	100	136,888	100	106,538	100	94,002	100

During the Track Record Period, revenue from Japan was the primary source of our revenue, which mainly represented our sales of ODM toys and own licensed toys to Japanese customers. The revenue from Japan contributed to approximately 66.9%, 62.4%, 61.7% and 67.7% of the total revenue for each of the two years ended 31 March 2017 and the nine months ended 31 December 2016 and 2017, respectively.

Year ended 31 March 2016 compared to the year ended 31 March 2017

Our revenue increased by approximately 11.2% from approximately HK\$123.2 million for the year ended 31 March 2016 to approximately HK\$136.9 million for the year ended 31 March 2017. Such increase was mainly due to the increase in sales of our imported toys and own licensed toys mainly in Hong Kong and the PRC in the year ended 31 March 2017 as compared to that of the year ended 31 March 2016. The increase in revenue of approximately HK\$9.4 million in Hong Kong and approximately HK\$5.9 million in the PRC mainly represented the increase in sales of own licensed toys due to the newly developed superhero figures series and polygon figures in the year ended 31 March 2017.

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Nine months ended 31 December 2016 compared to the nine months ended 31 December 2017

Our revenue decreased by approximately 11.8% from approximately HK\$106.5 million for the nine months ended 31 December 2016 to approximately HK\$94.0 million for the nine months ended 31 December 2017. The decrease in sales in USA of approximately HK\$4.3 million for the nine months ended 31 December 2017 as compared to that of the nine months ended 31 December 2016, was mainly because less sales of imported toys and own licensed toys were made to Customer Group B during the nine months ended 31 December 2017. The decrease in sales in Hong Kong of approximately HK\$2.3 million for the nine months ended 31 December 2017 as compared to the nine months ended 31 December 2016 was mainly because less sales of imported toys were sold to our distributors in Hong Kong during the nine months ended 31 December 2017. The decrease in sales in Japan of approximately HK\$2.1 million for the nine months ended 31 December 2017 as compared to that of the nine months ended 31 December 2016 was mainly because less sales of ODM toys were made to Customer Group A during the nine months ended 31 December 2017.

Cost of sales

Our cost of sales amounted to approximately HK\$91.0 million, HK\$96.8 million, HK\$76.0 million and HK\$67.0 million for each of the two years ended 31 March 2017 and the nine months ended 31 December 2016 and 2017, respectively. The following table sets forth below are the details of our Group's cost of sales by business segments during the Track Record Period:

	For the year ended				For the nine months ended			
	31 March		31 March		31 December		31 December	
	2016	2017	2016	2017	2016	2017	2016	2017
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)							
Sales of ODM toys	66,502	73.1	64,040	66.2	50,585	66.6	46,683	69.7
Distribution of imported toys	16,083	17.7	18,667	19.3	15,849	20.9	11,212	16.7
Sales of own licensed toys	8,357	9.2	14,059	14.5	9,527	12.5	9,097	13.6
	<u>90,942</u>	<u>100</u>	<u>96,766</u>	<u>100</u>	<u>75,961</u>	<u>100</u>	<u>66,992</u>	<u>100</u>

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(i) *Sales of ODM toys*

Our Group's cost of sales, incurred from sales of ODM toys during the Track Record Period, primarily consists of the production costs. Our cost of sales incurred from sales of ODM toys were approximately HK\$66.5 million, HK\$64.0 million, HK\$50.6 million and HK\$46.7 million for each of the two years ended 31 March 2017 and the nine months ended 31 December 2016 and 2017, respectively. The following table illustrates our cost of sales during the Track Record Period:

	For the year ended 31 March				For the nine months ended 31 December				
	2016		2017		2016		2017		
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	
					(unaudited)				
Production costs	53,105	79.9	61,380	95.8	39,273	77.6	35,418	75.9	
Moulds costs	13,039	19.6	2,619	4.1	10,898	21.5	10,304	22.1	
Others	358	0.5	41	0.1	414	0.9	961	2.0	
	66,502	100	64,040	100	50,585	100	46,683	100	

Year ended 31 March 2016 compared to the year ended 31 March 2017

The cost of sales derived from sales of ODM toys decreased by approximately HK\$2.5 million, or approximately 3.7%, from approximately HK\$66.5 million for the year ended 31 March 2016 to approximately HK\$64.0 million for the year ended 31 March 2017. The decrease was mainly attributable to the decrease in moulds costs of approximately HK\$10.4 million, which was due to less number of moulds of ODM toys developed in the year ended 31 March 2017 as compared to the year ended 31 March 2016.

Nine months ended 31 December 2016 compared to the nine months ended 31 December 2017

The cost of sales derived from ODM sales decreased by approximately HK\$3.9 million, or approximately 7.7%, from approximately HK\$50.6 million for the nine months ended 31 December 2016 to approximately HK\$46.7 million for the nine months ended 31 December 2017. The decrease was mainly attributable to decrease in production cost of approximately HK\$3.9 million during the period attributable to decrease in production cost for our general class ODM toys which was in line with the decrease in sales of general class ODM toys.

(ii) *Distribution of imported toys*

Our Group's cost of sales incurred from distribution of imported toys during the Track Record Period derived from purchase of imported toys. Our Group's cost of sales incurred from distribution of imported toys were approximately HK\$16.1

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million, HK\$18.7 million, HK\$15.8 million and HK\$11.2 million for each of the two years ended 31 March 2017 and the nine months ended 31 December 2016 and 2017, respectively.

Year ended 31 March 2016 compared to the year ended 31 March 2017

Our Group's cost of sales incurred from distribution of imported toys increased by approximately HK\$2.6 million, or by approximately 16.1%, from approximately HK\$16.1 million for the year ended 31 March 2016 to approximately HK\$18.7 million for the year ended 31 March 2017. Such increase was in line with the increase in revenue derived from our distribution of imported toys.

Nine months ended 31 December 2016 compared to the nine months ended 31 December 2017

The cost of sales derived from distribution of imported toys decreased by approximately HK\$4.6 million, or approximately 29.3%, from approximately HK\$15.8 million for the nine months ended 31 December 2016 to approximately HK\$11.2 million for the nine months ended 31 December 2017. Such decrease was in line with the decrease in sales of distribution of imported toys of approximately 32.0% in the nine months ended 31 December 2017.

(iii) Sales of own licensed toys

Our Group's cost of sales derived from sales of own licensed toys during the Track Record Period consists of (i) production costs; (ii) license fee; (iii) depreciation of mould; and (iv) others. Our Group's cost of sales incurred from sales of own licensed toys were approximately HK\$8.4 million, HK\$14.1 million, HK\$9.5 million and HK\$9.1 million for each of the two years ended 31 March 2017 and the nine months ended 31 December 2016 and 2017 respectively. The following table sets forth the details of our Group's cost of sales of own licensed toys during the Track Record Period:

	For the year ended 31 March				For the nine months ended 31 December			
	2016		2017		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Production costs	3,208	38.4	6,141	43.7	3,763	39.5	4,995	54.9
License fee	3,080	36.8	3,537	25.2	2,254	23.7	1,982	21.8
Depreciation of mould	2,064	24.7	4,261	30.3	3,453	36.2	1,812	19.9
Others	5	0.1	120	0.8	57	0.6	308	3.4
	<u>8,357</u>	<u>100</u>	<u>14,059</u>	<u>100</u>	<u>9,527</u>	<u>100</u>	<u>9,097</u>	<u>100</u>

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Year ended 31 March 2016 compared to the year ended 31 March 2017

The cost of sales derived from sales of own licensed toys increased by approximately HK\$5.7 million, or approximately 68.2%, from approximately HK\$8.4 million for the year ended 31 March 2016 to approximately HK\$14.1 million for the year ended 31 March 2017. Such increase was mainly attributable to (i) the increase in production costs, which was in line with the revenue growth of our sales of own licensed toys; and (ii) the increased depreciation cost due to the increase in number of moulds attributable to the expansion in the product type of own licensed toys.

Nine months ended 31 December 2016 compared to the nine months ended 31 December 2017

The cost of sales derived from sales of own licensed toys decreased by approximately HK\$0.4 million, or approximately 4.5%, from approximately HK\$9.5 million for the nine months ended 31 December 2016 to approximately HK\$9.1 million for the nine months ended 31 December 2017. Such decrease was mainly due to the expiry of a license agreement with Licensor A in June 2017 which resulted in the decrease in our depreciation of mould for the relevant own licensed toys, given that in general our moulds are depreciated over the life of the licensed period.

Gross Profit and Gross Profit Margin

Gross profit is equal to revenue less cost of sales. Gross profit margin is calculated as gross profit divided by revenue.

The following table sets forth our gross profit and gross profit margin by business segments for each of the two years ended 31 March 2017 and the nine months ended 31 December 2016 and 2017:

	For the year ended 31 March				For the nine months ended 31 December			
	2016		2017		2016		2017	
	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Sales of ODM toys	19,023	22.2	19,848	23.7	14,933	22.8	14,599	23.8
Distribution of imported toys	6,592	29.1	8,913	32.3	8,049	33.7	5,048	31.0
Sales of own licensed toys	6,597	44.1	11,361	44.7	7,595	44.4	7,363	44.7
Overall	<u>32,212</u>	26.2	<u>40,122</u>	29.3	<u>30,577</u>	28.7	<u>27,010</u>	28.7

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Period to period comparison of results of operations

Our gross profit was approximately HK\$32.2 million, HK\$40.1 million, HK\$30.6 million and HK\$27.0 million for each of the two years ended 31 March 2017 and the nine months ended 31 December 2016 and 2017, respectively.

Our gross profit margin increased from approximately 26.2% for the year ended 31 March 2016 to approximately 29.3% for the year ended 31 March 2017 mainly due to (i) the increase in gross profit margin of all business segments of our Group for the year ended 31 March 2017 as compared to the year ended 31 March 2016 (please refer to this section below for details); and (ii) the increase in the portion of sales of own licensed toys and distribution of imported toys, which have higher gross profit margins as compared with sales of ODM toys.

Our gross profit margin remained stable at approximately 28.7% for the nine months ended 31 December 2016 and 2017.

(i) *Sales of ODM toys*

Year ended 31 March 2016 compared to the year ended 31 March 2017

The gross profit generated from sales of ODM toys slightly increased by approximately HK\$0.8 million, or approximately 4.3%, from approximately HK\$19.0 million for the year ended 31 March 2016 to approximately HK\$19.8 million for the year ended 31 March 2017.

The corresponding gross profit margin increased by approximately 1.5 percentage point from approximately 22.2% for the year ended 31 March 2016 to approximately 23.7% for the year ended 31 March 2017. The increase was mainly due to the revenue generated from sales of ODM toys slightly decreased by approximately 1.9%, while the cost of sales of ODM toys decreased by approximately 3.7% which outweigh the decrease in revenue, result in the increase in gross profit and gross profit margin generated from the sales of ODM toys.

The decrease in the costs of sales of ODM toys in the year ended 31 March 2017 was mainly due to the decrease in the purchase orders for our premium ODM toys. In general, our design and production cost for premium products are relatively higher because it generally involved higher manufacturing cost charged by our PRC suppliers due to their sophisticated designs and longer manufacturing process required. As our sales volume of premium ODM toys decreased in the year ended 31 March 2017, our cost of sales of ODM toys had also decreased accordingly. For reasons regarding the decrease in our revenue from sales of ODM toys in the year ended 31 March 2017, please refer to the paragraph headed “Management discussion and analysis — Period to period comparison of results of operations” in this section.

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Nine months ended 31 December 2016 compared to the nine months ended 31 December 2017

The gross profit generated from sales of ODM toys decreased by approximately HK\$0.3 million, or approximately 2.2%, from approximately HK\$14.9 million for the nine months ended 31 December 2016 to approximately HK\$14.6 million for the nine months ended 31 December 2017.

The corresponding gross profit margin increased by approximately 1.0 percentage point from approximately 22.8% for the nine months ended 31 December 2016 to approximately 23.8% for the nine months ended 31 December 2017.

Such increase in gross profit margin was mainly because the revenue generated from sales of ODM toys decreased by approximately 6.5% while the cost of sales of ODM toys decreased by approximately 7.7%, resulting in the decrease in gross profit and increase in gross profit margin generated from the sales of ODM toys.

The decrease in the costs of sales of ODM toys for the nine months ended 31 December 2017 was mainly due to the decrease in our production costs and mould costs of ODM toys. For reasons regarding the decrease in our revenue from sales of ODM toys for the nine months ended 31 December 2017, please refer to the paragraph headed “Management discussion and analysis — Period to period comparison of results of operations” in this section.

(ii) Distribution of imported toys

Year ended 31 March 2016 compared to the year ended 31 March 2017

The gross profit generated from distribution of imported toys increased by approximately HK\$2.3 million, or approximately 35.2%, from approximately HK\$6.6 million for the year ended 31 March 2016 to approximately HK\$8.9 million for the year ended 31 March 2017, which was due to the increase in revenue generated from distribution of imported toys of approximately 21.6% outpaced the increase in cost of sales derived from distribution of imported toys of approximately 16.1%.

The corresponding gross profit margin increased by approximately 3.2 percentage point from approximately 29.1% for the year ended 31 March 2016 to approximately 32.3% for the year ended 31 March 2017. The increase was mainly due to the increase in sales proportion of our general class imported toys which generated a higher gross profit margin than premium imported toys. For reasons regarding the decrease in our revenue from sales of general class imported toys in the year ended 31 March 2017, please refer to the paragraph headed “Management discussion and analysis — Period to period comparison of results of operations” in this section. In general, our gross profit margin in relation to sales of general class imported toys is relatively higher because there are wider sources of suppliers (Japanese licensees) in the ACG toy market which can offer general class figures, and hence our Group could usually bargain for more favourable price in procuring imported toys from such suppliers.

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Nine months ended 31 December 2016 compared to the nine months ended 31 December 2017

The gross profit generated from distribution of imported toys decreased by approximately HK\$3.0 million, or approximately 37.3%, from approximately HK\$8.0 million for the nine months ended 31 December 2016 to approximately HK\$5.0 million for the nine months ended 31 December 2017.

The corresponding gross profit margin decreased by approximately 2.7 percentage points from approximately 33.7% for the nine months ended 31 December 2016 to approximately 31.0% for the nine months ended 31 December 2017.

Such decrease was mainly due to the combined effect of decrease in revenue generated from sales of imported toys of approximately 32.0% and the decrease in cost of sales of imported toys of approximately 29.3%. For reasons regarding the decrease in our revenue and decrease in cost of sales from distribution of imported toys for the nine months ended 31 December 2017, please refer to the paragraphs headed “Management discussion and analysis — Period to period comparison of results of operations” and “Management discussion and analysis — Period to period comparison of results of operations — Cost of sales” in this section.

(iii) Sales of own licensed toys

Year ended 31 March 2016 compared to the year ended 31 March 2017

The gross profit generated from sales of own licensed toys increased by approximately HK\$4.8 million, or approximately 72.2%, from approximately HK\$6.6 million for the year ended 31 March 2016 to approximately HK\$11.4 million for the year ended 31 March 2017, which was mainly due to around 70.0% increase in revenue from the sales of own licensed toys during the period.

The corresponding gross profit margin increased by approximately 0.6 percentage point from approximately 44.1% for the year ended 31 March 2016 to approximately 44.7% for the year ended 31 March 2017. The increase was mainly due to the above-mentioned significant increase in sales of our licensed toys outweighed the increase in cost of sales incurred in sales of own licensed toys of approximately 68.2%.

For reasons regarding the decrease in our revenue from sales of own licensed toys in the year ended 31 March 2017, please refer to the paragraph headed “Management discussion and analysis — Period to period comparison of results of operations” in this section. The slight increase in the gross profit margin of our own licensed toys in the year ended 31 March 2017 was primarily due to the increase in the increasing sales of our “TOPI” brand mini-toys series and “SENTINEL/千值練” brand polygon figures in the same period.

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Our gross profit margin from sales of “TOPI” brand mini-toys series and “SENTINEL/千值練” brand polygon figures is generally higher (as compared to our “SENTINEL/千值練” brand superhero figures) because our design and production cost for these two series of products are relatively lower because they involved lower manufacturing cost charged by our PRC supplier due to their simpler designs and shorter manufacturing process required.

Nine months ended 31 December 2016 compared to the nine months ended 31 December 2017

The gross profit generated from sales of own licensed toys slightly decreased by approximately HK\$0.2 million, or approximately 3.0%, from approximately HK\$7.6 million for the nine months ended 31 December 2016 to approximately HK\$7.4 million for the nine months ended 31 December 2017.

The corresponding gross profit margin remained stable and slightly increased by approximately 0.3 percentage point from approximately 44.4% for the nine months ended 31 December 2016 to approximately 44.7% for the nine months ended 31 December 2017.

Other net income

Our other net income amounted to approximately HK\$2.6 million, HK\$2.2 million, HK\$0.6 million and HK\$2.7 million for each of the two years ended 31 March 2017 and the nine months ended 31 December 2016 and 2017, respectively.

The table below sets forth a breakdown of our other income by nature for the year indicated:

	For the year ended		For the nine months ended	
	31 March		31 December	
	2016	2017	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(unaudited)	
Bank interest income	190	53	15	128
Net exchange gain/(loss)	(140)	(402)	(1,421)	771
Gain on disposal on property, plant and equipment	-	70	70	-
Rental income	-	60	20	180
Freight charge income	471	397	311	667
Management fee income	1,660	1,561	1,310	911
License fee income	225	-	-	-
Sundry income	161	448	267	23
	<u>2,567</u>	<u>2,187</u>	<u>572</u>	<u>2,680</u>

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Year ended 31 March 2016 compared to the year ended 31 March 2017

Our other net income decreased from approximately HK\$2.6 million for the year ended 31 March 2016 to approximately HK\$2.2 million for the year ended 31 March 2017, representing a decrease of approximately 14.8%. The decrease mainly derived from (i) the increase in net exchange loss on RMB of approximately HK\$0.3 million; (ii) the decrease in license fee income, which represents the license fee charged back from Sentinel Japan in relation to the Offshore License Agreements (as defined and discussed in the paragraph headed “Business — Description of business operations — II. Distribution of imported toys” in this prospectus, from approximately HK\$0.2 million for the year ended 31 March 2016 to nil for the year ended 31 March 2017 as a result of the expiration of five license agreements during the year ended 31 March 2016; and (iii) the decrease in management fee income represented by the quality control fee received from our customer Wing Co., Ltd. of approximately HK\$0.1 million.

Nine months ended 31 December 2016 compared to the nine months ended 31 December 2017

Our other net income increased from approximately HK\$0.6 million for the nine months ended 31 December 2016 to approximately HK\$2.7 million for the nine months ended 31 December 2017, representing an increase of approximately 368.5%. The significant increase was mainly derived from the increase in net exchange difference on foreign currency, mainly the Japanese Yen, of approximately HK\$2.2 million.

Selling expenses

Our selling expenses comprises (i) advertising, (ii) staff costs which mainly represents the expenses in salary of staff; (iii) freight, postage and delivery; (iv) commission expense for our consignment sales; and (v) other selling and distribution expenses. The following table sets forth the figures of our selling expenses during the Track Record Period:

	For the year ended 31 March				For the nine months ended 31 December			
	2016		2017		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)							
Advertising	1,045	33.2	1,127	29.3	1,079	34.4	979	29.3
Staff costs	753	23.9	1,289	33.6	921	29.4	1,132	33.8
Freight, postage and delivery	1,251	39.8	1,115	29.1	897	28.6	1,051	31.4
Commission expense	-	-	226	5.9	192	6.1	126	3.8
Other selling and distribution expenses	97	3.1	81	2.1	47	1.5	58	1.7
	<u>3,146</u>	<u>100</u>	<u>3,838</u>	<u>100</u>	<u>3,136</u>	<u>100</u>	<u>3,346</u>	<u>100</u>

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Year ended 31 March 2016 compared to the year ended 31 March 2017

The selling expenses increased by approximately HK\$0.7 million, or approximately 22.0%, from approximately HK\$3.1 million for the year ended 31 March 2016 to approximately HK\$3.8 million for the year ended 31 March 2017, mainly due to (i) an increase in staff costs mainly attributable to increase in number of staff and salary increments to certain employees; and (ii) increased commission expense attributable to the increase in consignment sales as a result of four newly signed consignment agreements during the year ended 31 March 2017.

Nine months ended 31 December 2016 compared to the nine months ended 31 December 2017

Our selling expenses increased by approximately HK\$0.2 million, from approximately HK\$3.1 million for the nine months ended 31 December 2016 to approximately HK\$3.3 million for the nine months ended 31 December 2017, representing an increase of approximately 6.7%. Such increase was mainly derived from the increase in staff costs of approximately HK\$0.2 million as a result of the increase in the number of staff and salary increment to certain employees.

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Administrative expenses

Our administrative expenses mainly consists of (i) staff costs which mainly represents the expenses in salary and staff benefit payable to our administrative department including our Directors; (ii) operating lease charges for land and building; (iii) travelling and entertainment expenses; (iv) audit fee; (v) depreciation expenses; (vi) legal and professional fee; (vii) stamp duty; (viii) insurance expenses mainly in relation to product liability insurance; and (ix) other administrative expenses. The following table sets forth the breakdown of our administrative expenses during the Track Record Period:

	For the year ended 31 March				For the nine months ended 31 December			
	2016		2017		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Staff costs	4,482	49.2	5,502	47.9	3,820	46.6	4,918	52.7
Operating lease charges for land and building	903	9.9	1,225	10.7	931	11.4	837	9.0
Travelling expenses	1,001	11.0	1,020	8.9	643	7.8	650	7.0
Audit fee	750	8.3	771	6.7	563	6.9	563	6.0
Depreciation expenses	636	7.0	708	6.2	515	6.3	525	5.6
Legal and professional fee	336	3.7	746	6.5	557	6.8	355	3.8
Stamp duty	2	0.0	164	1.4	-	-	-	-
Insurance expenses	110	1.2	191	1.7	97	1.2	301	3.2
Bank charges	59	0.6	133	1.2	99	1.2	297	3.2
Testing fee	117	1.3	251	2.2	186	2.3	111	1.2
Other administrative expenses	706	7.8	767	6.7	777	9.5	770	8.3
	<u>9,102</u>	<u>100</u>	<u>11,478</u>	<u>100</u>	<u>8,188</u>	<u>100</u>	<u>9,327</u>	<u>100</u>

Year ended 31 March 2016 compared to the year ended 31 March 2017

The administrative expenses increased by approximately HK\$2.4 million, or approximately 26.1%, from approximately HK\$9.1 million for the year ended 31 March 2016 to approximately HK\$11.5 million for the year ended 31 March 2017. The increased expense was mainly presented by (i) increase of legal and professional fee of approximately HK\$0.4 million mainly represented by the accounting consultancy fee; (ii) increase in staff costs of approximately HK\$1.0 million due to increase in salary and number of staff; and (iii) increase in operating lease charges for land and building of approximately HK\$0.3 million due to the newly leased office property from 15 January 2016.

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Nine months ended 31 December 2016 compared to the nine months ended 31 December 2017

The administrative expenses increased by approximately HK\$1.1 million, representing approximately 13.9%, from approximately HK\$8.2 million for the nine months ended 31 December 2016 to approximately HK\$9.3 million for the nine months ended 31 December 2017. The increased expense was mainly represented by the increase in staff costs of approximately HK\$1.1 million due to increase in salary and number of staff.

Listing expenses

Year ended 31 March 2016 compared to the year ended 31 March 2017

Our listing expenses increased from nil for the year ended 31 March 2016 to approximately HK\$12.5 million for the year ended 31 March 2017. The increase was mainly represented by the increase in expenses accrued to professional parties related to the Listing.

Nine months ended 31 December 2016 compared to the nine months ended 31 December 2017

Our listing expenses decreased from approximately HK\$5.0 million for the nine months ended 31 December 2016 to HK\$3.8 million for the nine months ended 31 December 2017, which was mainly due to the decrease in expenses accrued to professional parties related to the Listing.

Finance costs

Year ended 31 March 2016 compared to the year ended 31 March 2017

The finance costs arose from our bank loans and overdrafts and finance lease liabilities. Our finance costs increased by approximately 52.7% from approximately HK\$74,000 for the year ended 31 March 2016 to approximately HK\$0.1 million for the year ended 31 March 2017 mainly due to the increase in interests on bank loan and overdrafts attributable to the increase in mortgage interest rate.

Nine months ended 31 December 2016 compared to the nine months ended 31 December 2017

Our finance costs remains steady with a total cost of approximately HK\$82,000 and HK\$81,000 for the nine months ended 31 December 2016 and 2017 respectively.

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Income tax expense

The following table sets forth the breakdown of income tax expense of our Group for the periods indicated:

	For the year ended		For the nine months ended	
	31 March		31 December	
	2016	2017	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)			
Current tax				
– Provision for the year	3,690	4,912	3,750	2,692
– Under-provision in respect of prior years	28	(170)	(170)	37
	3,718	4,742	3,580	2,729
Deferred tax				
Origination and reversal of temporary differences	120	(275)	(282)	163
	3,838	4,467	3,298	2,892

Hong Kong profits tax has been provided at the rate of 16.5% for each of the two years ended 31 March 2017 and the nine months ended 31 December 2016 and 2017 on the estimated assessable profit arising in or derived from the jurisdictions in which the entities operate for the year. The effective tax rate for each of the two years ended 31 March 2017 and the nine months ended 31 December 2016 and 2017 are approximately 17.4%, 28.4%, 21.6% and 20.5%, respectively. The effective tax rate increased from approximately 17.4% for the year ended 31 March 2016 to approximately 28.4% for the year ended 31 March 2017, which was mainly because of the non-deductible listing expense incurred during the year ended 31 March 2017. The effective tax rate decreased by 1.1 percentage points, from approximately 21.6% for the nine months ended 31 December 2016 to 20.5% for the nine months ended 31 December 2017, which was mainly because of the decrease in non-deductible listing expenses incurred for the nine months ended 31 December 2017.

The income tax paid by us increased from HK\$0.8 million for the year ended 31 March 2016 to HK\$7.5 million for the year ended 31 March 2017. The payment of income tax in the year ended 31 March 2017 mainly represents the settlement of: (i) the payment of income tax of approximately HK\$0.9 million in respect of the year ended 31 March 2015 made in the year ended 31 March 2017; (ii) the income tax expense of HK\$3,690,000 for the year ended 31 March 2016 which is due to be paid in the following year; and (iii) the provisional of income tax of HK\$3,478,000 in respect of the year ended 31 March 2017; and net off with (i) payment of provisional tax for the year ended 31 March 2016 amounted HK\$338,000; and (ii) over provision of income tax expenses for the year ended 31 March

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2016 amounted HK\$293,000. The significant difference in the amount of income tax paid by us in the two years ended 31 March 2017 was mainly due to (i) the significant increase in the Group's profit before taxation in the year ended 31 March 2016 as compared to the year ended 31 March 2015; (ii) approximately HK\$0.9 million income tax paid in the year ended 31 March 2017 instead of the year ended 31 March 2016 due to the Late Filings (as defined below); (iii) the provisional tax of HK\$338,000 for the year ended 31 March 2016 consists provisional tax for only one subsidiary of the Group, namely D4 Toys, and no provisional tax assessment of other three subsidiaries, namely Bestone Creative, Sentinel Hong Kong and Lai Ga, was made by IRD for the year ended 31 March 2016 due to the Late Filings (as defined below); and (iv) the provisional tax of HK\$3.5 million for the year ended 31 March 2017.

Our Group had failed to file the profits tax returns of certain Hong Kong subsidiaries (the "Tax Returns") for the year ended 31 March 2015 on time because the then auditors of our relevant Group members had required extra time and efforts to handle the auditing works (the "Late Filings"). As a result, the filing of the Tax Returns was postponed to early 2016. Subsequently, the Inland Revenue Department had issued their corresponding final assessment and demand notes to us for the tax due for the year ended 31 March 2015, and we had fully settled the amount due in August 2016. For further details about the aforesaid non-compliance and our internal control measures implemented to prevent recurrence of similar incidents, please refer to the paragraph headed "Business — Regulatory compliance" in this prospectus.

Profit for the year/period

Year ended 31 March 2016 compared to the year ended 31 March 2017

The decline of our profit for the year from approximately HK\$18.3 million for the year ended 31 March 2016 to approximately HK\$11.3 million for the year ended 31 March 2017 was primarily due to the combined effect of the increase in expenses related to the Listing of approximately HK\$12.5 million outpacing the increase in gross profit of approximately HK\$7.9 million.

Nine months ended 31 December 2016 compared to the nine months ended 31 December 2017

Our profit for the period decreased from approximately HK\$12.0 million for the nine months ended 31 December 2016 to approximately HK\$11.2 million for the nine months ended 31 December 2017, which was mainly due to the combined effect of (i) decrease in gross profit of approximately HK\$3.6 million; and (ii) increase in administrative expenses of approximately HK\$1.1 million which were partially net off with (i) increase in other net income of approximately HK\$2.1 million; (ii) decrease in listing expenses of approximately HK\$1.2 million; and (iii) increase in valuation gain on investment property of approximately HK\$0.4 million.

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LIQUIDITY AND CAPITAL RESOURCES

Cash flows

The following table sets forth the cash flows for the periods indicated:

	For the year ended		For the nine months ended	
	31 March		31 December	
	2016	2017	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(unaudited)	
Net cash generated from/(used in)				
operating activities	29,409	(6,586)	(5,447)	1,876
Net cash used in investing activities	(4,047)	(7,956)	(1,892)	(3,863)
Net cash used in financing activities	(12,598)	(5,203)	(7,403)	(4,591)
Net increase/(decrease) in cash and cash equivalents	12,764	(19,745)	(14,742)	(6,578)
Cash and cash equivalents at beginning of the year	39,263	52,027	52,027	32,282
Cash and cash equivalents at end of the year	52,027	32,282	37,285	25,704

Net cash generated from/(used in) operating activities

Year ended 31 March 2016 compared to the year ended 31 March 2017

The net cash generated from operating activities was approximately HK\$29.4 million for the year ended 31 March 2016. The amount was derived from our Group's profit before tax of approximately HK\$22.1 million, mainly positively adjusted for (i) depreciation of approximately HK\$2.7 million; and (ii) increase in trade and other payables of approximately HK\$11.4 million; and mainly negatively adjusted for (i) tax paid of approximately HK\$0.8 million; (ii) increase in inventories of approximately HK\$1.3 million; and (iii) increase in trade and other receivables of approximately HK\$4.9 million.

The net cash used in operating activities was approximately HK\$6.6 million for the year ended 31 March 2017. The amount was derived from our Group's profit before tax of approximately HK\$15.7 million, mainly positively adjusted for depreciation of approximately HK\$5.0 million; and mainly negatively adjusted for (i) tax paid of approximately HK\$7.5 million; (ii) increase in inventories of approximately HK\$1.5 million; (iii) decrease in trade and other payables of approximately HK\$9.0 million; (iv) increase in trade and other receivables of approximately HK\$8.0 million; and (v) valuation gain on investment property of approximately HK\$1.4 million.

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Our Group's net cash generated from operating activities decreased from approximately HK\$29.4 million for the year ended 31 March 2016 to net cash flow used in operating activities of approximately HK\$6.6 million. The decrease is due to (i) decrease of profit before taxation of approximately HK\$6.4 million; (ii) difference of approximately HK\$3.2 million comparing the increase in trade and other receivables of approximately HK\$8.0 million for the year ended 31 March 2017 with the increase in trade and other receivables of approximately HK\$4.8 million for the year ended 31 March 2016; (iii) difference of approximately HK\$20.4 million comparing the decrease in trade and other payables of approximately HK\$9.0 million for the year ended 31 March 2017 with the increase in trade and other payables of approximately HK\$11.4 million for the year ended 31 March 2016; and (iv) increase of income tax paid of approximately HK\$6.6 million.

Nine months ended 31 December 2016 compared to the nine months ended 31 December 2017

The net cash used in operating activities was approximately HK\$5.4 million for the nine months ended 31 December 2016. The amount was derived from our Group's profit before tax of approximately HK\$15.3 million, mainly positively adjusted for depreciation of approximately HK\$4.0 million; and mainly negatively adjusted for (i) tax paid of approximately HK\$0.9 million; (ii) increase in inventories of approximately HK\$2.6 million; (iii) decrease in trade and other payables of approximately HK\$11.8 million; and (iv) increase in trade and other receivables of approximately HK\$8.8 million.

The net cash generated from operating activities was approximately HK\$1.9 million for the nine months ended 31 December 2017. The amount was derived from our Group's profit before tax of approximately HK\$14.1 million, mainly positively adjusted for (i) depreciation of approximately HK\$2.3 million; (ii) decrease in inventories of approximately HK\$1.1 million and (iii) increase in trade and other payable of approximately HK\$0.5 million; and mainly negatively adjusted for (i) increase in trade and other receivables of approximately HK\$8.7 million; and (ii) valuation gain on investment property of approximately HK\$1.0 million.

Net cash used in investing activities

Year ended 31 March 2016 compared to the year ended 31 March 2017

For the year ended 31 March 2016, our Group had net cash used in investing activities of approximately HK\$4.0 million, which was mainly due to purchases of equipment, furniture and fixtures of approximately HK\$4.2 million for the year offset by proceeds from interest received of approximately HK\$0.2 million.

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For the year ended 31 March 2017, our Group had net cash used in investing activities of approximately HK\$8.0 million, which was mainly due to the purchase of equipment, furniture and fixtures of approximately HK\$8.1 million for the year partially offset by proceeds from the disposal of equipment, furniture and fixtures of approximately HK\$0.1 million.

Nine months ended 31 December 2016 compared to the nine months ended 31 December 2017

For the nine months ended 31 December 2016, our Group had net cash used in investing activities of approximately HK\$1.9 million, which was mainly due to purchases of equipment, furniture and fixtures of approximately HK\$2.0 million.

For the nine months ended 31 December 2017, our Group had net cash used in investing activities of approximately HK\$3.9 million, which was mainly due to purchases of equipment, furniture and fixtures of approximately HK\$4.0 million for the year.

Net cash used in financing activities

Year ended 31 March 2016 compared to the year ended 31 March 2017

For the year ended 31 March 2016, our Group had net cash used in financing activities of approximately HK\$12.6 million, which was mainly due to (i) dividend paid of approximately HK\$10.0 million; (ii) repayment of bank loans of approximately HK\$0.3 million; (iii) capital element of finance lease rental paid of approximately HK\$0.2 million; and (iv) increase in amount due from a director of approximately HK\$2.2 million.

For the year ended 31 March 2017, our Group had net cash used in financing activities of approximately HK\$5.2 million, which was mainly due to (i) listing expense paid of approximately HK\$1.6 million; (ii) repayment of bank loans of approximately HK\$0.2 million; (iii) capital element of finance lease rental paid of approximately HK\$0.1 million; and (iv) increase in amount due from a director of approximately HK\$3.1 million.

Nine months ended 31 December 2016 compared to the nine months ended 31 December 2017

For the nine months ended 31 December 2016, our Group had net cash used in financing activities of approximately HK\$7.4 million, which was mainly due to (i) listing expenses paid of approximately HK\$1.1 million; (ii) repayment of bank loans of approximately HK\$0.2 million; and (iii) increase in amount due from a director of approximately HK\$6.0 million.

For the nine months ended 31 December 2017, our Group had net cash used in financing activities of approximately HK\$4.6 million, which was mainly due to (i) listing expenses paid of approximately HK\$1.2 million; (ii) dividend paid of approximately HK\$0.9 million; and (iii) increase in amount due from a director of approximately HK\$2.4 million.

FINANCIAL INFORMATION

ANALYSIS OF VARIOUS ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Property, plant and equipment

Our Group's property, plant and equipment mainly consist of (i) leasehold land and buildings; (ii) leasehold improvements; (iii) office equipment; (iv) motor vehicle; and (v) moulds. The following table sets out the carrying amounts of each type of property, plant and equipment of our Group as at each reporting date:

	As at 31 March		As at
	2016	2017	31 December
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2017</i> <i>HK\$'000</i>
Leasehold land and buildings	7,128	12,357	12,143
Leasehold improvements	245	136	172
Office equipment	203	192	238
Motor vehicles	469	173	–
Moulds	2,991	1,289	3,247
	<u>11,036</u>	<u>14,147</u>	<u>15,800</u>

The carrying amount of our property, plant and equipment increased from approximately HK\$11.0 million as at 31 March 2016 to approximately HK\$14.1 million as at 31 March 2017 mainly due to the increased leasehold land and buildings of approximately HK\$5.2 million represented by the newly purchased warehouse on 23 December 2016.

The property, plant and equipment increased by approximately HK\$1.7 million to HK\$15.8 million as at 31 December 2017, which was mainly due to the increase in moulds of approximately HK\$2.0 million mainly attributable to the development of moulds for "FLAME TOYS" brand toys in the nine months ended 31 December 2017.

Inventories

Our inventories consist primarily of merchandise held for sale. The following table sets forth our inventories as of the dates indicated:

	As at 31 March		As at
	2016	2017	31 December
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2017</i> <i>HK\$'000</i>
Merchandise held for sale	1,465	2,937	1,800
	<u>1,465</u>	<u>2,937</u>	<u>1,800</u>

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The table below sets out the average inventory turnover days for the years indicated:

	For the year ended		For the
	31 March		nine months
	2016	2017	ended
	<i>Days</i>	<i>Days</i>	31 December
	2017	2017	2017
	<i>Days</i>	<i>Days</i>	<i>Days</i>
Average inventory turnover days ^(Note)	3.2	8.3	9.7

Note:

Average inventory turnover days is calculated as the average of the beginning and ending inventory balances for the year/period, divided by the cost of sales for that year/period, multiplied by the number of days for the year/period.

During the Track Record Period, our inventory and average inventory turnover days are maintained at low level. As at 31 March 2016 and 2017, our inventories amounted to approximately HK\$1.5 million and HK\$2.9 million respectively. Such increase was mainly due to the increase in inventories of one type of general class imported toys in order to cater for our sales.

Our inventories decreased to approximately HK\$1.8 million as at 31 December 2017, which was mainly due to write down of inventories of approximately HK\$0.3 million.

Our average inventory turnover days were approximately 3.2 days and 8.3 days for each of the two years ended 31 March 2017 respectively. The increase was mainly due to (i) low inventory level was recorded as at 31 March 2015; and (ii) relatively high level of inventories maintained as at 31 March 2016 and 2017 as compared to that as at 31 March 2015 as a result of the expansion of our distribution of imported toys and sales of own licensed toys business.

Our average inventory turnover days further increased to approximately 9.7 days for the nine months ended 31 December 2017, which was mainly due to the decrease of cost of sales in the nine months ended 31 December 2017 which was in line with the decrease of revenue in the nine months ended 31 December 2017.

Up to the Latest Practicable Date, approximately HK\$1.3 million representing approximately 71.0% of our inventories as at 31 December 2017 were subsequently sold.

Investment property

Our investment property as at 31 March 2016 and 2017 and 31 December 2017 were approximately HK\$7.4 million, HK\$8.8 million and HK\$9.8 million, respectively.

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Trade and other receivables

As at each reporting date, the trade and other receivables comprise:

	As at 31 March		As at
	2016	2017	31 December
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	10,801	13,357	14,953
Other receivables			
– current portion	1,670	2,885	3,607
Other receivables			
– non-current portion	457	–	–
Deposits and prepayments	5,809	10,540	17,058
	18,737	26,782	35,618

Trade receivables

Our trade receivables as at 31 March 2016 and 31 March 2017 and 31 December 2017 was approximately HK\$10.8 million, HK\$13.4 million and HK\$15.0 million, respectively.

During the Track Record Period, we generally granted our customers credit terms of 30 days to 90 days. We take into consideration a number of factors in determining the credit term of a customer including its previous payment history.

The trade receivables increased from approximately HK\$10.8 million as at 31 March 2016 to approximately HK\$13.4 million as at 31 March 2017, representing an increase of approximately 23.7%. Such increase was mainly due to the (i) increase in revenue for the year ended 31 March 2017 as compared to the year ended 31 March 2016; and (ii) the issue of an invoice amounting to approximately HK\$2.2 million to Customer C in March 2017 with the credit term ranging from 30 days to 60 days.

Our trade receivables further increased to approximately HK\$15.0 million as at 31 December 2017, which was mainly due to commencement of sales of an ACG figure series under the “FLAME TOYS” brand of approximately HK\$3.1 million in December 2017.

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The following table sets forth the debtors' turnover days of the trade receivables (calculated as the average of beginning and ending trade receivable balances for the period divided by revenue for the year, multiplied by the number of the days in the year) for the periods indicated:

	For the year ended		For the
	31 March		nine months
	2016	2017	ended
	<i>Days</i>	<i>Days</i>	31 December
			2017
			<i>Days</i>
Debtors' turnover day	21.7	32.2	41.4

Our debtors' turnover days increased from approximately 21.7 days in the year ended 31 March 2016 to approximately 32.2 days in the year ended 31 March 2017. Such increase in debtors' turnover days was mainly due to the low beginning balance of trade receivable for the year ended 31 March 2016, which was mainly because approximately HK\$18.8 million trade receivables due from Sentinel Japan (being a member of our largest customer group, namely Customer Group A) was settled relatively early as compared to our credit terms of 60 days near the end of the year ended 31 March 2015.

Our debtors' turnover days further increased to approximately 41.4 days for the nine months ended 31 December 2017, which was mainly driven up by the above-mentioned high balance of trade receivables as at 31 December 2017 and decreased revenue in the nine months ended 31 December 2017.

The following table illustrates the aging analysis of the trade receivables, based on the invoice date, as of the end of each reporting dates:

	As at 31 March		As at
	2016		31 December
	2017	2017	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Less than 30 days	7,208	10,341	9,374
31 to 60 days	213	160	3,793
61 to 90 days	703	985	406
Over 91 days but within one year	2,677	1,871	1,380
	10,801	13,357	14,953

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Although some customers showed relatively slower repayment, our Directors have reviewed the payment history of the long-aged receivables. As no evidence of impairment of trade receivable has occurred and there has not been a significant change in credit quality of our customers, our Directors considered that no impairment was necessary. Hence, no impairment of trade receivable was made during the Track Record Period, and the receivable balances were therefore considered fully recoverable as at the Latest Practicable Date.

Up to Latest Practicable Date, approximately HK\$14.7 million representing approximately 98.1% of our Group's trade receivable as at 31 December 2017 has been subsequently settled.

Other receivables, deposits and prepayments

	As at 31 March		As at
	2016	2017	31 December
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other receivables	2,127	2,885	3,607
Deposits and prepayments	5,809	10,540	17,058
	7,936	13,425	20,665

Other receivables, deposits and prepayments increased from approximately HK\$7.9 million as at 31 March 2016 to HK\$13.4 million as at 31 March 2017, representing an increase of approximately 69.2%. Such increase mainly represented the increase in deposits and prepayments of approximately HK\$4.7 million from approximately HK\$5.8 million as at 31 March 2016 to approximately HK\$10.5 million as at 31 March 2017, which was mainly represented by the prepayments of listing expenses.

On 5 September 2012, Lai Ga and Wing Co., Ltd. made available to a PRC individual, (the "**PRC Individual**") being the sole shareholder and executive director of our Supplier A1, loans of an aggregate amount of approximately US\$626,000 (the "**Loan**"). The principal amount of the Loan is US\$625,830, among which US\$492,300 and US\$133,530 were contributed by Wing Co., Ltd. and Lai Ga, respectively. The Loan provided to the PRC Individual is an interest-free and unsecured loan. Its maturity date is on 4 September 2017. As at the Latest Practicable Date, the Loan has been settled.

The PRC Individual was formerly employed as product sample office manager by a previous PRC supplier of our Group (the "**Previous PRC Supplier**"), to which we outsourced most of the manufacturing process of our ODM toys for Wing Co., Ltd. The PRC Individual was our key contact person in the Previous PRC Supplier and he was responsible for liaising with our Group on various matters ranging from production planning, quality control and production method.

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By around 2011, the PRC Individual discussed with Mr. Li about his plan to set up his own business in toy manufacturing. As substantial cost was required for setting up a factory as well as acquiring relevant machinery and equipment for producing ACG figures, the PRC Individual wished to obtain a long-term loan from Mr. Li for financing part of the initial investment cost.

Mr. Li considered that, from our past cooperation, the PRC Individual had acquired certain understandings of our product standard and requirements, and hence Mr. Li was confident that the PRC Individual would be able to meet our product requirements and specifications. Therefore, Mr. Li believed that, by providing a loan to the PRC Individual as his start-up funds, our Group could (i) save up potential time and cost required for selecting suitable alternative supplier in the event of any loss of our then major supplier; (ii) secure another potentially stable source of toy supply for our Group in order to diversify our supplier base; and (iii) incur lesser time and resources in performing quality control for upcoming products to be procured from the PRC Individual's factory (namely Supplier A1) due to our established confidence from past cooperation.

Our other receivables, deposits and prepayments increased by approximately 53.9%, from approximately HK\$13.4 million as at 31 March 2017 to approximately HK\$20.7 million as at 31 December 2017. Such increase was due to (i) increase in other receivables of approximately HK\$0.7 million as a result of increase in online purchase by our retail customers; and (ii) increase in deposits and prepayments of approximately HK\$6.5 million mainly due to the prepayment of listing expenses.

Trade and other payables

As at each reporting date, the trade and other payables comprise:

	As at 31 March		As at 31 December
	2016	2017	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	22,290	5,815	4,521
Deposit received	5,684	2,557	2,977
Other payables and accrued expenses	1,677	10,735	11,102
	29,651	19,107	18,600

Trade payables

Our trade payables represents the balance due to our Group's suppliers. The balance of trade payables significantly decreased from approximately HK\$22.3 million as at 31 March 2016 to approximately HK\$5.8 million as at 31 March 2017, representing a decrease of approximately 73.9%. Such decrease was mainly due to the late billing by our suppliers during the year ended 31 March 2016.

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Our trade payables further decreased to approximately HK\$4.5 million as at 31 December 2017, which was mainly due to decrease of average trade payables in the nine months ended 31 December 2017 as compared to that in the year ended 31 March 2017 mainly attributable to the high trade payables as at 31 March 2016 due to late billing by our suppliers during the year ended 31 March 2016.

The following table sets forth the creditors' turnover day (calculated as the average of beginning and ending total trade payable balances for the year divided by cost of inventory sold for the year, multiplied by the number of the days in the year) for the year indicated:

	For the year ended		For the
	31 March		nine months
	2016	2017	ended
	<i>Days</i>	<i>Days</i>	31 December
	<i>Days</i>	<i>Days</i>	<i>Days</i>
Creditors' turnover day	54.3	53.0	21.2

During the Track Record Period, the credit term granted by our Group's suppliers is 30 days to 60 days in general. The creditors' turnover day during the Track Record Period was within the credit term period. The creditors' turnover days decreased from approximately 54.3 days in the year ended 31 March 2016 to approximately 53.0 days in the year ended 31 March 2017. Our creditors' turnover days further decreased to approximately 21.2 days for the nine months ended 31 December 2017. The decrease in creditors' turnover days for the year ended 31 March 2017 and the nine months ended 31 December 2017 was mainly due to the decrease of average trade payables attributable to the decrease of trade payables in the nine months ended 31 December 2017.

The following table illustrates the aging analysis of the trade payables, based on the invoice date, as of the end of each reporting dates:

	As at 31 March		As at
	2016		31 December
	<i>HK\$'000</i>	<i>2017</i>	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	8,110	1,369	3,324
31 – 60 days	113	260	329
61 – 90 days	380	56	166
Over 91 days but within one year	13,687	4,130	702
	22,290	5,815	4,521

All of our Group's trade payables as at 31 December 2017 have been subsequently settled up to the Latest Practicable Date.

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Other payables and accrued expenses

The other payables and accrued expenses mainly represent obligation to pay for goods or services that have been acquired. The balance increased from approximately HK\$1.7 million as at 31 March 2016 to approximately HK\$10.7 million, representing an increase of approximately 540.1%. Such significant increase mainly represented by the accrual of listing expenses of approximately HK\$9.0 million.

As at 31 December 2017, our Group recorded the other payables and accrued expenses of approximately HK\$11.1 million, representing an increase of approximately 3.4% as compared to that as at 31 March 2017. Such increase was mainly due to the increase in accrued charges of approximately HK\$336,000 as at 31 December 2017.

Balances with a director

As at each reporting dates during the Track Record Period, our Group had the following balances with a director:

	As at 31 March		As at
	2016	2017	31 December
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2017</i>
			<i>HK\$'000</i>
Amount due from/(to) a director			
Mr. Li	3,532	2,678	(65)

The amount due from a director is unsecured, interest-free and expected to be settled within one year.

The balances with Mr. Li mainly arose from cash advance and payment on behalf. The balance of the amount due from a director decreased from approximately HK\$3.5 million as at 31 March 2016 to approximately HK\$2.7 million as at 31 March 2017, which was due to the settlement by way of setting off the interim dividends declared by our Group on 31 December 2016.

The balances of the amount due from a director decreased to nil and the balances of the amount due to a director increased to HK\$65,000 as at 31 December 2017, which were mainly due to a combined effect of dividend declared and cash withdrawal from Mr. Li during the nine months ended 31 December 2017.

All balances due to/from Director(s) will be settled prior to Listing.

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NET CURRENT ASSETS

The following table sets forth the breakdown of our Group's current assets and current liabilities as at 31 March 2016, 31 March 2017, 31 December 2017 and 31 March 2018.

	As at 31 March		As at 31 December	As at 31 March
	2016	2017	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (unaudited)
Current assets				
Inventories	1,465	2,937	1,800	1,778
Trade and other receivables	18,280	26,782	35,618	38,848
Amount due from a director	3,532	2,678	-	-
Current tax receivables	-	-	2,383	2,242
Cash and cash equivalents	52,027	32,282	25,704	27,542
	75,304	64,679	65,505	70,410
Current liabilities				
Trade and other payables	29,651	19,107	18,600	17,138
Dividend payable	-	-	-	-
Bank loans	6,961	6,731	6,635	6,582
Current tax payable	4,142	1,434	47	762
Obligations under finance leases	126	-	-	-
Amount due to a director	-	-	65	-
	40,880	27,272	25,347	24,482
Net current assets	34,424	37,407	40,158	45,928

The net current assets increased by approximately HK\$3.0 million from approximately HK\$34.4 million as at 31 March 2016 to HK\$37.4 million as at 31 March 2017, which was mainly due to (i) the increase in trade and others receivables of approximately HK\$8.5 million; (ii) the decrease in trade and other payables of approximately HK\$10.5 million; and (iii) the decrease in current tax payable of approximately HK\$2.7 million; and partially offset by the decrease of cash and cash equivalents of approximately HK\$19.7 million.

As at 31 March 2017, our Group recorded less than HK\$1,000 amounts due from shareholders as holding capital on the Company.

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The net current assets increased by approximately HK\$4.1 million from approximately HK\$37.4 million as at 31 March 2017 to HK\$40.2 million as at 31 December 2017, which was mainly due to (i) the decrease in trade and other payables of approximately HK\$0.5 million; (ii) the decrease in current tax payable of approximately HK\$1.4 million; (iii) the increase in trade and other receivables of approximately HK\$8.8 million; and (iv) the increase in current tax receivable of approximately HK\$2.4 million; and partially offset by (i) the decrease in cash and cash equivalent of approximately HK\$6.6 million; and (ii) the decrease in inventory of approximately HK\$1.1 million.

The net current assets further increased to approximately HK\$45.9 million as at 31 March 2018, which was mainly due to (i) the increase in trade and others receivables of approximately HK\$3.2 million; and (ii) the increase of cash and cash equivalents of approximately HK\$1.8 million; and partially offset by the decrease in trade and other payables of approximately HK\$1.4 million.

SUFFICIENCY OF WORKING CAPITAL

Our Directors confirm that our Group has sufficient working capital for its requirements for at least the next 12 months from the date of this prospectus, taking into account the existing financial resources available to us, the estimated net proceeds from the Share Offer and cash flows from operations.

INDEBTEDNESS

The following table sets out our Group's indebtedness as at the respective financial position dates below.

	As at 31 March		As at 31 December 2017	As at 31 March 2018
	2016	2017	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)
Finance lease liabilities	126	–	–	–
Bank loans	6,961	6,731	6,635	6,582
Total borrowings	7,087	6,731	6,635	6,582

Borrowings

Our Group had certain bank loans secured by mortgages over investment property and leasehold land and building with an aggregate carrying value of HK\$14.6 million, HK\$15.8 million, HK\$16.6 million and HK\$17.1 million with the personal guarantee of Mr. Li as at 31 March 2016 and 2017, 31 December 2017 and 31 March 2018 respectively. We are arranging the release of personal guarantee given by the Director as at the Latest Practicable Date and such personal guarantee will be released upon the Listing.

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Apart from the aforesaid bank loans secured by mortgages over investment property and leasehold land and building, our Group does not have any other loan or facility arrangement with bank or financial institution and has nil unutilised bank facilities as at the Latest Practicable Date.

We confirm that during the Track Record Period and up to the Latest Practicable Date, we have not encountered any material difficulty in raising bank loans or other financing in our business operations.

Mortgage

At 31 March 2016 and 2017, 31 December 2017 and 31 March 2018, our Group's investment property and leasehold land and building with an aggregate carrying value of HK\$14.6 million, HK\$15.8 million, HK\$16.6 million and HK\$17.1 million were mortgaged to secure banking facilities granted to our Group.

Contingent Liabilities

Our Group had no significant contingent liabilities at the end of each of 31 March 2016 and 2017, 31 December 2017 and 31 March 2018.

DISCLAIMER

Save as aforesaid or as otherwise disclosed herein and apart from normal trade and other payables and tax payable, our Group did not have any mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as at the closure of business on 31 March 2018.

OPERATING LEASE COMMITMENTS

Operating lease commitments outstanding as at 31 March 2016 and 2017 and 31 December 2017 not provided for in this section were as follows:

	As at 31 March		As at 31 December
	2016	2017	2017
	HK\$'000	HK\$'000	HK\$'000
Lease payments under operating leases	<u>1,497</u>	<u>1,400</u>	<u>1,144</u>

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CAPITAL EXPENDITURES

The following table sets out our Group's capital expenditures for the periods indicated. The capital expenditures were funded out of our Group's internal resources.

	As at 31 March		As at
	2016	2017	31 December
	HK\$'000	HK\$'000	2017 HK\$'000
Leasehold land and buildings	–	5,423	–
Leasehold improvements	160	48	124
Office equipment	168	49	97
Moulds	3,909	2,559	3,770
	<hr/>	<hr/>	<hr/>
Total	<u>4,237</u>	<u>8,079</u>	<u>3,991</u>

OTHER KEY FINANCIAL RATIOS

	As at/For the year/period ended		
	31 March	31 December	
	2016	2017	2017
Turnover growth ¹ /(decrease)	n/a	11.2%	(11.8)%
Net profit growth ² /(decrease)	n/a	(38.3)%	(6.3)%
Gross profit margin ³	26.2%	29.3%	28.7%
Net profit margin before interest and tax ⁴	18.0%	11.6%	15.1%
Net profit margin ⁵	14.8%	8.2%	12.0%
Return on equity ⁶	34.8%	18.9%	17.3%
Return on assets ⁷	19.4%	12.9%	12.3%
Current ratio ⁸	1.8 times	2.4 times	2.6 times
Gearing ratio ⁹	13.5%	11.3%	10.2%
Debt to equity ratio ¹⁰	Nil	Nil	Nil
Interest coverage ¹¹	299.6 times	140.3 times	175.5 times

Notes:

1. Turnover growth is calculated as the year-on-year growth rate of revenue.
2. Net profit growth is calculated as the year-on-year growth rate of net profit.
3. Gross profit margin is calculated as the gross profit divided by revenue.
4. Net profit margin before interest and tax is calculated as the profit before interest and tax divided by revenue.
5. Net profit margin is calculated as the profit for the year/period divided by revenue.
6. Return on equity is calculated as the profit for the year/period divided by total equity.

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7. Return on assets is calculated as the profit for the year/period divided by total assets.
8. Current ratio is calculated as the current assets divided by current liabilities.
9. Gearing ratio is calculated as the total debt divided by total equity. For the avoidance of doubt, total debt includes bank borrowing and obligations under finance leases.
10. Debt to equity ratio is calculated as the total debt net of cash and bank balances and divided by total equity. For the avoidance of doubt, total debt includes bank borrowing and finance lease obligation.
11. Interest coverage is calculated as the profit before interest and tax divided by finance cost.

Turnover growth/decrease

Our Group has experienced a turnover growth of approximately 11.2% as compared between the turnover in the two years ended 31 March 2017.

Our Group has experienced a turnover decrease of approximately 11.8% as compared between the turnover in the nine months ended 31 December 2016 and 2017.

Please refer to the paragraph headed “Management discussion and analysis — Revenue — Period to period comparison of results of operations” in this section for the reasons for the growth/decrease in our revenue.

Net profit growth/decrease

Our profit for the year decreased from approximately HK\$18.3 million for the year ended 31 March 2016 to approximately HK\$11.3 million for the year ended 31 March 2017 was primarily due to the combined effect of the increase in listing expenses of approximately HK\$12.5 million outpacing the increase in gross profit of approximately HK\$7.9 million.

Our net profit decreased by approximately 6.3% as compared between the net profit in the nine months ended 31 December 2016 and 2017, which was mainly due to the combined effect of (i) decrease in gross profit of approximately HK\$3.6 million; and (ii) increase in administrative expenses of approximately HK\$1.1 million partially net off with (i) increase in other net income of approximately HK\$2.1 million; (ii) decrease in listing expenses of approximately HK\$1.2 million; and (iii) increase in valuation gain on investment property of approximately HK\$0.4 million

Gross profit margin

Our Group’s gross profit margin increased from approximately 26.2% for the year ended 31 March 2016 to approximately 29.3% for the year ended 31 March 2017.

Our Group’s gross profit margin remained stable at 28.7% for the nine months ended 31 December 2016 and 2017.

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Please refer to the paragraph headed “Management discussion and analysis — Gross profit and gross profit margin — Period to period comparison of results of operations” in this section for the reasons for the decrease in our gross profit margin.

Net profit margin before interest and tax and net profit margin

Our Group’s net profit margin before interest and tax and net profit margin decreased from approximately 18.0% and 14.8% for the year ended 31 March 2016 to approximately 11.6% and 8.2% for the year ended 31 March 2017 respectively. The decrease in the net profit margin before interest and tax and net profit margin were mainly due to the listing expenses incurred in the year ended 31 March 2017 and the increase in revenue of approximately 11.2%.

Our Group’s net profit margin before interest and tax and net profit margin increased from approximately 14.4% and 11.3% for the nine months ended 31 December 2016 to approximately 15.1% and 12.0% for the nine months ended 31 December 2017 respectively, which were mainly due to combined effect of larger proportionate decrease in revenue than decrease in net profit margin before interest and tax and net profit margin which were attributable to (i) the increase in other net income of approximately HK\$2.1 million; (ii) the decrease in listing expenses of approximately HK\$1.2 million; and (iii) increase in valuation gain on investment property of approximately HK\$0.4 million.

Return on equity

Our Group’s return on equity decreased from approximately 34.8% as at 31 March 2016 to approximately 18.9% as at 31 March 2017, which was mainly due to (i) the decrease in net profit from approximately HK\$18.3 million for the year ended 31 March 2016 to approximately HK\$11.3 million for the year ended 31 March 2017; and (ii) the increase in total equity from approximately HK\$52.5 million to approximately HK\$59.7 million.

The Group’s return on equity decreased from approximately 18.9% as at 31 March 2017 to approximately 17.3% as at 31 December 2017, which was mainly due to the decrease in net profit as mentioned in subparagraph headed “Other Key Financial Ratio — Net profit growth/decrease” in this section above.

Return on assets

Our Group’s return on assets decreased from approximately 19.4% as at 31 March 2016 to approximately 12.9% as at 31 March 2017, which was mainly due to the combined effect of the decrease in net profit from approximately HK\$18.3 million for the year ended 31 March 2016 to approximately HK\$11.3 million for the year ended 31 March 2017 mainly caused by the non-recurring listing expense outpacing the decrease in total assets from approximately HK\$94.3 million for the year ended 31 March 2016 to approximately HK\$87.6 million for the year ended 31 March 2017.

Our Group’s return on assets decreased to approximately 12.3% as at 31 December 2017, which was mainly due to the decrease in net profit as mentioned in subparagraph headed “Other Key Financial Ratios — Net profit growth/decrease” in this section above.

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Current ratio

During the Track Record Period, our Group's current ratio increased from approximately 1.8 times as at 31 March 2016 to approximately 2.4 times as at 31 March 2017, which was mainly due to the decrease in current liability of approximately 33.3% mainly attributable to decrease in trade and other payables and the less-than-proportionate decrease in current asset of approximately 14.1%.

Our current ratio increased from approximately 2.4 times as at 31 March 2017 to approximately 2.6 times as at 31 December 2017, which was mainly attributable to the decrease in current tax payable of HK\$1.4 million in the nine months ended 31 December 2017.

Gearing ratio

Our Group's gearing ratio dropped slightly from approximately 13.5% as at 31 March 2016 to approximately 11.3 % as at 31 March 2017 mainly due to the combined effect of the decrease in bank borrowing of approximately HK\$0.2 million and the increase in total equity of approximately HK\$7.3 million.

Our Group's gearing ratio decreased to approximately 10.2% as at 31 December 2017. Such decrease was mainly due to increase in equity of HK\$5.2 million mainly attributable to (i) the increase in non-current assets of HK\$2.7 million; and (ii) decrease in current liabilities of HK\$1.9 million.

Debt to equity ratio

As at 31 March 2016, 31 March 2017 and 31 December 2017, the cash and cash equivalent were larger than the debts involved, as such, the debt to equity ratio was nil.

Interest coverage

Our Group's interest coverage decreased significantly from approximately 299.6 times for the year ended 31 March 2016 to approximately 140.3 times for the year ended 31 March 2017 mainly represented by the significant decrease in profit before interest and tax of approximately HK\$6.3 million mainly due to the non-recurring listing expense.

Our interest coverage decreased from approximately 187.6 times for the nine months ended 31 December 2016 to approximately 175.5 times for the nine months ended 31 December 2017, which was mainly due to the decrease of net profit before interest and tax of approximately HK\$1.2 million mainly attributable to the combined effect of (i) decrease in gross profit of approximately HK\$3.6 million; and (ii) increase in administrative expenses of approximately HK\$1.1 million, partially net off with (i) increase in other net income of approximately HK\$2.1 million; (ii) decrease in listing expenses of approximately HK\$1.2 million; and (iii) increase in valuation gain on investment property of approximately HK\$0.4 million.

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DIVIDEND

For the year ended 31 March 2016, our Group's subsidiaries had declared interim dividends in the total amounts of HK\$10.0 million to their then shareholder. The amounts were settled by cash. For the year ended 31 March 2017, our Group's subsidiaries had declared interim dividends in the amounts of HK\$4.0 million to their then shareholder. The amounts were settled through amount due from a Director on 31 December 2016. For the nine months ended 31 December 2017, our Group's subsidiaries had declared interim dividend in the total amounts of HK\$6.0 million to their then shareholders.

Our Company currently does not have a fixed dividend policy. Dividends may be paid out by way of cash or by other means that our Group considers appropriate. Declaration and payment of any future dividends would require the recommendation of our Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. A decision to declare or to pay any dividend in the future, and the amount of any dividends, depends on a number of factors, including results of operations, financial condition, the payment by our Group's subsidiaries of cash dividends to us, and other factors our Board may deem relevant.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Liquidity risk

Our Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Our Group's liquidity position and compliance with loan covenants are monitored closely by the management of our Group.

Credit risk

Principal financial assets consist of receivables, deposits and bank balances. Our Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position.

Trade receivables may be affected by the unfavourable economic conditions and the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Trade receivables are due within 0 to 30 days from the date of billing. Customers are assessed and rated based on their credit quality, taking into account of their financial position, repayment history and other factors. Our Group has policies in place to ensure that sales are made to customers with satisfactory credit history. It performs periodic credit reviews of its customers. Other receivables are assessed by reference to the historical information on the default rates of the counter parties. Management does not expect any significant losses from non-performance by those relevant parties.

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Bank balances are limited to financial institutions with high credit quality. Our Group controls its credit risk to non-performance by its counterparties through monitoring their credit rating and setting approved counterparty credit limits that are regularly reviewed.

Interest rate risk

Our Group's interest rate risk arises primarily from bank loans. Borrowings issued at variable rates expose our Group to cash flow interest rate risk. Our Group monitors the level of its variable rate borrowings and manages the contractual terms of the interest bearing financial liabilities. Our Group's interest rate profile as monitored by management is set out below.

(i) Interest rate profile

	As at 31 March				As at 31 December	
	2016		2017		2017	
	Effective Interest rate	Amount <i>HK\$'000</i>	Effective Interest rate	Amount <i>HK\$'000</i>	Effective Interest rate	Amount <i>HK\$'000</i>
Variable rate borrowings:						
Bank loans	0.84%	<u>6,961</u>	1.62%	<u>6,731</u>	1.88%	<u>6,635</u>
Total		<u><u>6,961</u></u>		<u><u>6,731</u></u>		<u><u>6,635</u></u>

(ii) Sensitivity analysis

At 31 March 2016 and 2017 and 31 December 2017, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have decreased/increased our Group's profit after taxation and retained profits by approximately HK\$29,000, HK\$28,000 and HK\$28,000, respectively. Other components of consolidated equity would not be affected in response to a general increase/decrease in interest rates.

The sensitivity analysis above indicates the annualised impact on our Group's interest expense that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the secured bank loans which exposes our Group's cash flow interest rate risk at that date. The analysis is performed on the same basis throughout the Track Record Period.

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(ii) *Sensitivity analysis*

The following table indicates the instantaneous change in our Group's and the Company's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which our Group and the Company have significant exposure at the end of each of the Track Record Period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the HK\$ the US\$ would be materially unaffected by any changes in movement in value of the US\$ against other currencies.

Our Group

	At 31 March		At 31 December			
	2016	2017	2016	2017		
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits
	%	\$'000	%	\$'000	%	\$'000
EUR	10 (10)	49 (49)	10 (10)	65 (65)	10 (10)	83 (83)
JYP	10 (10)	(527) 527	10 (10)	251 (251)	10 (10)	306 (306)
RMB	10 (10)	623 (623)	10 (10)	668 (668)	10 (10)	785 (785)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of our Group entities' profit after tax and equity measured in the respective functional currencies, translated to the HK\$ the exchange rate ruling at the end of each of the Track Record Period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by our Group which expose our Group to foreign currency risk at the end of each of the Track Record Period, including inter-company payables and receivables within our Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis is performed on the same basis throughout the Track Record Period.

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Sensitivity analysis of cost of sales

The following table illustrates the sensitivity of our Group's gross profit and net profit to the average cost of sales for the Track Record Period. The change in income tax is calculated by using the effective interest rate for the Track Record Period. It is assumed that all income and expenses other than cost of sales and income tax expenses, remain unchanged.

	For the year ended		For the nine months ended	
	31 March		31 December	
	2016	2017	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Percentage change in cost of sales	+/-5%	+/-5%	+/-5%	+/-5%
Impact on gross profit (<i>HK\$'000</i>)	-/+4,547	-/+4,838	-/+3,798	-/+3,350
Percentage change in gross profit	-/+14.1%	-/+12.1%	-/+12.4%	-/+12.4%
Impact on net profit (<i>HK\$'000</i>)	-/+3,757	-/+3,465	-/+2,979	-/+2,664
Percentage change in net profit	-/+20.6%	-/+30.7%	-/+24.8%	-/+23.7%

If the cost of sales increased by 5%, assuming all other costs, expenses and income remain unchanged, our Group's gross profit for each of the two years ended 31 March 2017 and the nine months ended 31 December 2016 and 2017 would have been approximately HK\$27.7 million, HK\$35.3 million, HK\$26.8 million and HK\$23.7 million, respectively and the net profit for each of the two years ended 31 March 2017 and the nine months ended 31 December 2016 and 2017 would have been approximately HK\$14.5 million, HK\$7.8 million, HK\$9.0 million and HK\$8.6 million, respectively.

If the cost of sales decreased by 5%, assuming all other costs, expenses and income remain unchanged, our Group's gross profit for each of the two years ended 31 March 2017 and the nine months ended 31 December 2016 and 2017 would have been approximately HK\$36.8 million, HK\$45.0 million, HK\$34.4 million and HK\$30.4 million, respectively and the net profit for each of the two years ended 31 March 2017 and the nine months ended 31 December 2016 and 2017 would have been approximately HK\$22.0 million, HK\$14.7 million, HK\$15.0 million and HK\$13.9 million, respectively.

Breakeven Analysis

For each of the two years ended 31 March 2017 and the nine months ended 31 December 2016 and 2017, if the cost of sales increased by 24.3%, 16.3%, 20.1% and 21.1%, respectively, assuming all other costs, expenses and income remain unchanged, our Group's gross profit would have dropped to approximately HK\$10.1 million, HK\$24.4 million, HK\$15.3 million and HK\$12.9 million, respectively, and the net profit would have dropped to approximately HK\$0 million for each of the two years ended 31 March 2017 and the nine months ended 31 December 2016 and 2017, respectively.

FINANCIAL INFORMATION

Sensitivity analysis of revenue

The following table illustrates the sensitivity of our Group's gross profit and net profit to the revenue for the Track Record Period. The change in income tax is calculated by using the effective rate for the Track Record Period. It is assumed that all income and expenses other than revenue and income tax expenses, remain unchanged.

	For the year ended 31 March		For the nine months ended 31 December	
	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000
Percentage change in average revenue	+/-5%	+/-5%	+/-5%	+/-5%
Impact on gross profit (HK\$'000)	+/-6,158	+/-6,844	+/-5,327	+/-4,700
Percentage change in gross profit	+/-19.1%	+/-17.1%	+/-17.4%	+/-17.4%
Impact on net profit (HK\$'000)	+/-5,088	+/-4,902	+/-4,179	+/-3,738
Percentage change in net profit	+/-27.9%	+/-43.5%	+/-34.8%	+/-33.3%

If the revenue increased by 5%, assuming all other costs, expenses and income remain unchanged, our Group's gross profit for each of the two years ended 31 March 2017 and the nine months ended 31 December 2016 and 2017 would have been approximately HK\$38.4 million, HK\$47.0 million, HK\$35.9 million and HK\$31.7 million, respectively and the net profit for each of the two years ended 31 March 2017 and the nine months ended 31 December 2016 and 2017 would have been approximately HK\$23.3 million, HK\$16.2 million, HK\$16.2 million and HK\$15.0 million, respectively.

If the revenue decreased by 5%, assuming all other costs, expenses and income remain unchanged, our Group's gross profit for each of the two years ended 31 March 2017 and the nine months ended 31 December 2016 and 2017 would have been approximately HK\$26.1 million, HK\$33.3 million, HK\$25.3 million and HK\$22.3 million, respectively and the net profit for each of the two years ended 31 March 2017 and the nine months ended 31 December 2016 and 2017 would have been approximately HK\$13.2 million, HK\$6.4 million, HK\$7.8 million and HK\$7.5 million, respectively.

Breakeven analysis

For each of the two years ended 31 March 2017 and the nine months ended 31 December 2016 and 2017, if the revenue decreased by 17.9%, 11.5%, 14.4% and 15.0%, respectively, assuming all income and expenses other than revenue and income tax expenses remain unchanged, our Group's gross profit would have decreased to approximately HK\$10.1 million, HK\$24.4 million, HK\$15.3 million and HK\$12.8 million, respectively, and the net profit would have decreased to approximately HK\$0 million for each of the two years ended 31 March 2017 and the nine months ended 31 December 2016 and 2017.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company had no reserves available for distribution to its Shareholders.

FINANCIAL INFORMATION

PROFIT ESTIMATE FOR THE YEAR ENDED 31 MARCH 2018

On the bases as set out in Appendix III to this prospectus and in the absence of unforeseen circumstances, our key profit estimate data for the year ended 31 March 2018 are set out below:

Estimated consolidated profit attributable to
the equity shareholders of our Company
for the year ended 31 March 2018 not less than
HK\$15.0 million

Unaudited estimated earnings per Share on a pro forma basis
for the year ended 31 March 2018 ^(Note) not less than
HK\$0.015

Note: The unaudited estimated earnings per Share on a pro forma basis is calculated by dividing the estimated consolidated profit attributable to the equity shareholders of our Company for the year ended 31 March 2018 by 1,000,000,000 Shares as if such Shares had been issued throughout the Track Record Period. The number of Shares used in this calculation includes the Shares in issue as at the date of this prospectus and the Shares to be issued pursuant to the Share Offer, excluding any Shares which may be allotted and issued pursuant to the exercise of any options that may be granted under the Share Option Scheme.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets prepared in accordance with Rule 7.31 of the GEM Listing Rules is set out to illustrate effect of the Share Offer on our net tangible assets as at 31 December 2017 as if it had taken place on 31 December 2017. The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets as at 31 December 2017 or any future date following the completion of Share Offer. It is prepared based on our net assets as at 31 December 2017 as set out in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below.

	Consolidated net tangible assets of our Group as at 31 December 2017 HK\$'000 (Note 1)	Estimated net proceeds from the Share Offer HK\$'000 (Note 2)	Unaudited pro forma adjusted consolidated net tangible assets HK\$'000	Unaudited pro forma adjusted consolidated net tangible assets per Share HK\$ (Note 3)
Based on an Offer Price of HK\$0.25 per Share	64,963	56,201	121,164	0.12
Based on an Offer Price of HK\$0.35 per Share	64,963	80,326	145,289	0.15

FINANCIAL INFORMATION

Notes:

1. The consolidated net tangible assets attributable to our Group as at 31 December 2017 is extracted from the Accountants' Report as set out in Appendix I to this prospectus, which is based on the consolidated net assets attributable to our Group of HK\$65.0 million as at 31 December 2017.
2. The estimated net proceeds from the Share Offer are based on 250,000,000 shares to be issued at the minimum and maximum indicative Offer Price of HK\$0.25 and HK\$0.35 per Share, respectively, after deduction of the underwriting fees and other related expenses payable by our Group subsequent to 31 December 2017, and excluding any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates granted to the Directors to allot and issue or repurchase Shares.
3. The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived on the basis of 1,000,000,000 shares in issue, assuming that 250,000,000 shares to be issued pursuant to the Share Offer had been completed on 31 December 2017, and excluding any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates granted to the Directors to allot and issue or repurchase Shares.
4. No adjustment has been made to the audited pro forma consolidated net tangible assets of our Group as at 31 December 2017 to reflect any trading results or other transactions of our Group entered into subsequent to 31 December 2017.

DISCLOSURE REQUIRED UNDER THE GEM LISTING RULES

The Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

FINANCIAL INFORMATION

VALUATION OF THE PROPERTY INTERESTS

To comply with the GEM Listing Rules, the Company has engaged BMI Appraisals Limited, an independent valuer, to value the property interests of the Group. Details of the property valuation report are set out in Appendix IV of this prospectus. Disclosure of the reconciliation of the net book value and the valuation as required under Rule 8.30 of the GEM Listing Rules is set out below:

	Amount <i>HK\$'000</i>
Net book value of the properties as at 31 December 2017	21,344
Add: Additions during the period from 1 January 2018 to 31 March 2018	–
Less: Depreciation and amortisation during the period from 1 January 2018 to 31 March 2018	71
Net book value of the properties as at 31 March 2018	<u>21,273</u>
Valuation surplus	<u><u>10,027</u></u>
Market value of the properties as at 31 March 2018 as set out in the property valuation report in Appendix IV to this prospectus	<u><u>31,300</u></u>

RELATED PARTY TRANSACTIONS

With respect to the related party transactions set out in note 21 to the Accountants' Report contained in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms and/or that such terms that were no less favorable to us than terms available from Independent Third Parties which are fair and reasonable and in the interest of the Shareholders as a whole.

FUTURE PLANS AND USE OF PROCEEDS

BUSINESS OBJECTIVES AND STRATEGIES

Our principal business objective is to further strengthen our overseas distribution network, and to enhance the sales of own licensed toys by expanding our resources so that we have sufficient capacity to introduce new lines of own licensed toys, on top of our present scale of operation and our current license agreements on hand.

Our current intended business strategies are (i) to expand our product portfolio of own licensed toys, (ii) to enhance our overseas distribution network, (iii) to further strengthen our manpower, and (iv) to further enhance our information technology system.

Our Directors estimate that the net proceeds from the Share Offer will enable our Group to implement the aforesaid business strategies. For further information regarding our business strategies, please refer to the section headed “Business — Business strategies” in this prospectus.

IMPLEMENTATION PLAN

Our Group’s implementation plans are set forth below for each of the six-month periods until 30 September 2020. Investors should note that the implementation plans and their scheduled times for attainment are formulated on the bases and assumption referred to in the paragraph headed “Bases and assumptions” below. These bases and assumptions are inherently subject to many uncertainties, variables and unpredictable factors, in particular the risk factors set out in the section headed “Risk factors” in this prospectus. Our Group’s actual course of business may vary from the business objective set out in this prospectus. There can be no assurance that plans of our Group will materialise in accordance with the expected time frame or that the objective of our Group will be accomplished at all. Based on our Group’s business objective, our Directors intend to carry out the following implementation plans:

Period	Item	Cost <i>HK\$ million</i>
From the Latest Practicable Date to 30 September 2018	Expanding our product portfolio of own licensed toys	
	<ul style="list-style-type: none"> - Payment of license fees - Payment of mould cost and production cost 	2.4
	Enhancing our overseas distribution network	
	<ul style="list-style-type: none"> - Establishment of our representative office in the US (including leasing of office premise, recruitment of two US staff and overhead items) 	0.2

FUTURE PLANS AND USE OF PROCEEDS

Period	Item	Cost <i>HK\$ million</i>
	Further strengthening our manpower	
	– Recruitment of two engineering staff, two product designers, two marketing staff and two finance and administrative staff	1.2
	Further enhancing our information technology system and performing warehouse renovation	
	– Performing renovation on our warehouse newly acquired in December 2016	0.4
	Sub-total for the period	4.2
From 1 October 2018 to 31 March 2019	Expanding our product portfolio of own licensed toys	
	– Payment of license fees	
	– Payment of mould cost and production cost	7.5
	Enhancing our overseas distribution network	
	– Maintaining our representative office in the US	
	– Establishment of our representative office in Taiwan (including leasing of office premise, recruitment of two Taiwanese staff and overhead items)	0.4
	Further strengthening our manpower	
	– Maintaining our additional staff recruited	0.9
	Further enhancing our information technology system and performing warehouse renovation	
	– Installation of a new enterprise resource (“ERP”) planning system	0.4
	Sub-total for the period	9.2

FUTURE PLANS AND USE OF PROCEEDS

Period	Item	Cost <i>HK\$ million</i>
From 1 April 2019 to 30 September 2019	Expanding our product portfolio of own licensed toys	
	– Payment of license fees	
	– Payment of mould cost and production cost	18.4
	Enhancing our overseas distribution network	
	– Maintaining our representative offices in the US and Taiwan	
	– Establishment of our representative office in Singapore (including leasing of office premise, recruitment of three Singaporean staff and overhead items)	0.7
	Further strengthening our manpower	
	– Maintaining our additional staff recruited	
	– Recruitment of one engineering staff and one product designers	0.9
	Further enhancing our information technology system and performing warehouse renovation	
	– Upgrading the existing computer hardware in relation to product design functions	0.4
	Sub-total for the period	20.4
From 1 October 2019 to 31 March 2020	Expanding our product portfolio of own licensed toys	
	– Payment of license fees	
	– Payment of mould cost and production cost	10.5
	Enhancing our overseas distribution network	
	– Maintaining our representative offices in the US, Singapore and Taiwan	0.9

FUTURE PLANS AND USE OF PROCEEDS

Period	Item	Cost <i>HK\$ million</i>
	Further strengthening our manpower – Maintaining our additional staff recruited	1.0
	Further enhancing our information technology system and performing warehouse renovation – Upgrading the existing computer software in relation to product design functions	0.3
	Sub-total for the period	12.7
From 1 April 2020 to 30 September 2020	Enhancing our overseas distribution network – Maintaining our representative offices in the US, Singapore and Taiwan	0.9
	Further strengthening our manpower – Maintaining our additional staff recruited	1.0
	Further enhancing our information technology system and performing warehouse renovation – Upgrading the existing computer software in relation to product design functions	0.3
	Sub-total for the period	2.2
Total		48.7

FUTURE PLANS AND USE OF PROCEEDS

BASES AND ASSUMPTIONS

The business objective and strategies set out by Directors are based on the following bases and assumptions:

- our Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which our future plans relate;
- there will be no material change in the funding requirement for each of our Group's future plans described in this document from the amount as estimated by our Directors;
- there will be no material change in existing laws and regulations, or other governmental policies relating to our Group, or in the political, economic or market conditions affecting the jurisdictions relating to our Group's operation and future plans;
- there will be no material changes in the bases or rates of taxation applicable to the activities of our Group;
- there will be no disaster, natural, political or otherwise, which would materially disrupt the businesses or operations of our Group; and
- our Group will not be materially affected by the risk factors as set out under the section headed "Risk Factors" in this prospectus.

REASONS FOR THE SHARE OFFER

Our Directors believe that the listing of the Shares on GEM will facilitate the implementation of our business strategies. As stated in the section headed "Business — Business strategies" in this prospectus, we intend (i) to expand our product portfolio of own licensed toys, (ii) to enhance our overseas distribution network, (iii) to further strengthen our manpower, and (iv) to further enhance our information technology system. The net proceeds of the Share Offer will provide financial resources to our Group to achieve such business strategies, which will further strengthen our market position and expand our market share.

FUTURE PLANS AND USE OF PROCEEDS

A public listing status will also enhance our corporate profile and recognition and assist us in reinforcing our brand awareness and image. We believe that a public listing status on GEM could attract potential customers and suppliers who are more willing to establish business relationship with listed companies. It will also generate reassurance among our Group's existing customers and suppliers and strengthen our competitiveness in the market.

The Share Offer will also enable our Group to have access to capital market for raising funds both at the time of Listing and at later stages, which would in turn assist us in the future business development of our Group. A public listing status on GEM may offer the Company a broader shareholder base which could potentially lead to a more liquid market in the trading of the Shares. We also believe that our internal control and corporate governance practices could be further enhanced following the Share Offer.

USE OF PROCEEDS

The net proceeds to be received by us from the Share Offer based on the Offer Price of HK\$0.30 per Offer Share (being the mid-point of the indicative Offer Price range), after deducting related expenses to be borne by us, are estimated to be approximately HK\$48.7 million. Our Directors presently intend that the net proceeds will be applied as follows:

- approximately HK\$38.8 million (approximately 79.8% of the net proceeds) will be used for expanding our product portfolio of own licensed toys;
- approximately HK\$3.1 million (approximately 6.3% of the net proceeds) will be used for enhancing our overseas distribution network;
- approximately HK\$5.0 million (approximately 10.3% of the net proceeds) will be used for further strengthening our manpower; and
- approximately HK\$1.8 million (approximately 3.6% of the net proceeds) will be used for further enhancing our information technology system and performing warehouse renovation.

FUTURE PLANS AND USE OF PROCEEDS

The following table sets forth a breakdown of how the net proceeds to be received by us from the Share Offer are intended to be applied and the timing of application:

	From the Latest Practicable Date to 30 September 2018 <i>HK\$ million</i>	From 1 October 2018 to 31 March 2019 <i>HK\$ million</i>	From 1 April 2019 to 30 September 2019 <i>HK\$ million</i>	From 1 October 2019 to 31 March 2020 <i>HK\$ million</i>	From 1 April 2020 to 30 September 2020 <i>HK\$ million</i>	Total <i>HK\$ million</i>
Expanding our product portfolio of own licensed toys	2.4	7.5	18.4	10.5	-	38.8
Enhancing our overseas distribution network	0.2	0.4	0.7	0.9	0.9	3.1
Further strengthening our manpower	1.2	0.9	0.9	1.0	1.0	5.0
Further enhancing our information technology system and performing warehouse renovation	0.4	0.4	0.4	0.3	0.3	1.8
Total	4.2	9.2	20.4	12.7	2.2	48.7

Our Directors consider that the net proceeds to be received by us from the Share Offer of about HK\$48.7 million, together with our Group's internal resources and cash generated from our operation, will be sufficient to finance the business plans of our Group as scheduled up to 30 September 2020.

To the extent that the net proceeds from the issue of the Offer Shares are not immediately required for the above purpose, it is the present intention of our Directors that such proceeds will be placed on short-term interest bearing deposits or treasury products with authorised financial institutions.

FUTURE PLANS AND USE OF PROCEEDS

If the Offer Price is set at the high-end of the indicative Offer Price range at HK\$0.35 per Offer Share, the net proceeds from the Share Offer will increase to approximately HK\$60.7 million. If the Offer Price is set at the low-end of the indicative Offer Price range, at HK\$0.25 per Offer Share, the net proceeds from the Share Offer will decrease to approximately HK\$36.6 million. If the Offer Price is finally determined to be less than HK\$0.30 (being the mid-point of the indicative range of the Offer Price), our Group will reduce the proposed use of net proceeds on a pro rata basis and will finance such shortfall by internal cash resources, working capital and/or other financing, as and when appropriate. If the Offer Price is finally determined to be more than HK\$0.30, our Group will apply the additional net proceeds to the above purposes in the same proportions as set out above. Under such circumstances, we will adjust our allocation of the net proceeds in the same proportion as set out above.

Should our Directors decide to re-allocate the intended use of proceeds to other business plans and/or new project of our Group to a material extent and/or there is to be any material modification to the use of proceeds as described above, our Group will disclose such changes in our annual report in accordance with the GEM Listing Rules and will issue an announcement where the changes constitute inside information.

UNDERWRITING

UNDERWRITERS

Public Offer Underwriters

Alpha Financial Group Limited
Quasar Securities Co., Limited
AFG Securities Limited
Astrum Capital Management Limited
Taijin Securities and Futures Limited
Wellington Financial Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, our Company is offering the Public Offer Shares (subject to reallocation) for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to, among other matters, the Listing Division granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and to the satisfaction of certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriters have agreed to subscribe or procure subscribers for their respective applicable proportions of the Public Offer Shares now being offered which are not taken up under the Public Offer on the terms and conditions of this prospectus, the Application Forms and the Public Offer Underwriting Agreement.

The Public Offer Underwriting Agreement is conditional on and subject to the Placing Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for termination

The Joint Global Coordinators shall have the absolute discretion to terminate the arrangements set out in the Public Offer Underwriting Agreement by notice in writing given to our Company at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date, if there shall develop, occur, exist or come into effect:

- (i) any new law or regulation or any material change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the Cayman Islands, the BVI or any relevant jurisdiction; or
- (ii) any adverse change (whether or not permanent) in local, national or international stock market conditions; or
- (iii) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or

UNDERWRITING

- (iv) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the Cayman Islands, the BVI or any relevant jurisdiction; or
- (v) any adverse change in the business or in the financial or trading position of our Group or otherwise; or
- (vi) any change or development (whether or not permanent), or any event or series of events resulting in any change in the financial, legal, political, economic, military, industrial, fiscal, regulatory, market (including stock market) or currency matters or condition in Hong Kong, the Cayman Islands, the BVI, or any relevant jurisdiction; or
- (vii) a general moratorium on commercial banking business activities in Hong Kong, the Cayman Islands, the BVI or any relevant jurisdiction declared by the relevant authorities; or
- (viii) any event of force majeure including but without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out, natural disaster or outbreak of infectious diseases,

which in the reasonable opinion of the Joint Global Coordinators (for themselves and on behalf of the Public Offer Underwriters):

- (a) might be materially adverse to the business, financial condition or prospects of our Group taken as a whole; or
- (b) might have a material adverse effect on the success of the Share Offer or might have the effect of making any part of the Public Offer Underwriting Agreement incapable of implementation or performance in accordance with its terms; or
- (c) makes it inadvisable or inexpedient to proceed with the Share Offer.

Without prejudice to the above, if, at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date, it comes to the notice of the Joint Global Coordinators:

- (i) any matter or event showing any of the warranties to be untrue, inaccurate or misleading in any material respect when given or repeated or there has been any breach of any of the warranties or any other provision of the Public Offer Underwriting Agreement which is considered, in the reasonable opinion of the Sponsor and the Joint Global Coordinators, to be material in the context of the Public Offer; or

UNDERWRITING

- (ii) any matter which, had it arisen immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted a material omission in the reasonable opinion of the Sponsor and the Joint Global Coordinators in the context of the Public Offer; or
- (iii) any statement contained in this prospectus and the Application Forms reasonably considered to be material by the Sponsor and the Joint Global Coordinators which is discovered to be or becomes untrue, incorrect or misleading and in the reasonable opinion of the Sponsor and the Joint Global Coordinators to be material in the context of the Public Offer; or
- (iv) any event, act or omission which gives rise or is likely to give rise to any material liability of any of our Company, the executive Directors and our Controlling Shareholders pursuant to the indemnities contained in the Public Offer Underwriting Agreement,

the Joint Global Coordinators shall be entitled (but not bound) by notice in writing to our Company on or prior to such time to terminate the Public Offer Underwriting Agreement.

Our Company shall inform the Stock Exchange in writing as soon as it has been informed of any of the matters referred to above (if any) by our Controlling Shareholders and disclose such matters by way of an announcement to be published in accordance with the GEM Listing Rules as soon as possible.

Undertakings given to the Stock Exchange pursuant to the GEM Listing Rules

Undertaking by our Company

Pursuant to Rule 17.29 of the GEM Listing Rules, we have undertaken to the Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or our securities will be completed within six months from the commencement of dealing), except in certain circumstances prescribed by Rule 17.29 of the GEM Listing Rules.

UNDERWRITING

Undertaking by our Controlling Shareholders

Pursuant to Rule 13.16A(1) of the GEM Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and to our Company that except pursuant to the Share Offer, it will not and will procure that the relevant registered holder(s) will not: (a) in the period commencing on the date by reference to which disclosure of its shareholding in our Company is made in this prospectus and ending on the date which is six months from the date on which dealings in the Shares commence on the Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it is shown by this prospectus to be the beneficial owner; and (b) in the period of six months commencing on the date on which the period referred to in the paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in the paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a Controlling Shareholder of our Company. Pursuant to Rule 13.19 of the GEM Listing Rules, each of our Controlling Shareholder has undertaken to the Stock Exchange and to our Company that, within the period commencing on the date by reference to which disclosure of its shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the date on which dealings in the Shares commence on the Stock Exchange, it will: (i) when it pledges or charges any Shares beneficially owned by it in favour of an authorised institution pursuant to Rule 13.19 of the GEM Listing Rules, immediately inform our Company of such pledge or charge together with the number of Shares so pledged or charged; and (ii) when it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform our Company of such indications.

Undertakings pursuant to the Public Offer Underwriting Agreement

Undertaking by our Company

Except pursuant to the Capitalisation Issue, the Share Option Scheme and the Share Offer, during the period commencing on the date of this prospectus and ending on, and including, the date that is six months after the Listing Date (the “**First Six-Month Period**”), our Company has undertaken to each of the Joint Global Coordinators, the Public Offer Underwriters and the Sponsor not to, and to procure each other member of our Group not to, without the prior written consent of the Joint Global Coordinators (such consent not to be unreasonably withheld or delayed) and the Sponsor and unless in compliance with the requirements of the GEM Listing Rules:

- (i) offer, allot, issue or sell, or agree to allot, issue or sell, hedge, grant or agree to grant any option, right or warrant over, or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by our Company or any of its affiliates), either directly or indirectly, conditionally or unconditionally, any

UNDERWRITING

Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or any securities convertible into or exchangeable for such Shares (or any interest in any Shares or any voting or other right attaching to any Shares); or

- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or such securities; or
- (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above; or
- (iv) offer or agree to do any of the foregoing transactions and publicly disclose any intention to effect such transaction, in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period).

In the event of our Company doing any of the foregoing by virtue of the aforesaid exceptions or during the six-month period commencing from the expiry of the First Six-Month Period (the “**Second Six-Month Period**”), it will take all reasonable steps to ensure that such action will not create a disorderly or false market in any of the Shares or other securities of our Company.

Undertaking by our Controlling Shareholders

Each of our Controlling Shareholders has also undertaken to each of our Company, the Joint Global Coordinators, the Public Offer Underwriters and the Sponsor that, save as (i) pursuant to the Share Offer; or (ii) permitted under the GEM Listing Rules, without the prior written consent of the Joint Global Coordinators (such consent not to be unreasonably withheld or delayed) and the Sponsor:

- (1) he/it will not, at any time during the First Six-Month Period, (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable), or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or

UNDERWRITING

that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above, or (iv) offer to or agree to or announce any intention to effect any transaction specified in (i), (ii) or (iii) above, in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period);

- (2) he/it will not, during the Second Six-Month Period, enter into any of the transactions specified in (i), (ii) or (iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it will cease to be a “controlling shareholder” (as defined in the GEM Listing Rules) of our Company; and
- (3) without prejudice to the undertakings as referred to in paragraphs (1) and (2) above, during the period commencing on the date by reference to which disclosure of its direct or indirect shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, it shall:
 - (i) when he/it pledges or charges or otherwise create any rights of encumbrances over any Shares or other securities of our Company beneficially owned by it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) pursuant to Rule 13.18(1) of the GEM Listing Rules, immediately inform our Company, the Sponsor, the Joint Global Coordinators and the Joint Lead Managers of such pledge or charge or creation of the rights of encumbrances together with the number of the securities so pledged or charged and all other information as may be reasonably requested by our Company, the Sponsor, the Joint Global Coordinators and/or the Joint Lead Managers; and
 - (ii) subsequent to the pledge or charge or creation of rights or encumbrances over the Shares (or interest therein) or other shares or interests as mentioned in subparagraph (i) above, when it receives any indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged or encumbered securities as referred to in sub-paragraph (i) above will be disposed of, immediately inform our Company of such indications, and inform the Sponsor, the Joint Global Coordinators and the Joint Lead Managers as soon as practicable thereafter (taking into account the requirements of applicable laws, rules and regulations) of such indications.

UNDERWRITING

Placing Underwriting Agreement

In connection with the Placing, it is expected that our Company will enter into the Placing Underwriting Agreement with, among others, the Placing Underwriter(s), on terms and conditions that are substantially similar to the Public Offer Underwriting Agreement as described above and on the additional terms described below. Under the Placing Underwriting Agreement, the Placing Underwriter(s) will severally agree to subscribe or procure subscribers for the Placing Shares being offered pursuant to the Placing.

It is expected that, pursuant to the Placing Underwriting Agreement, our Company, our executive Directors and our Controlling Shareholders will give undertakings similar to those given pursuant to the Public Offer Underwriting Agreement, as described in the paragraph headed “Underwriting arrangements and expenses — Public Offer Underwriting Agreement — Undertakings pursuant to the Public Offer Underwriting Agreement” in this section.

It is expected that each of our Controlling Shareholders will undertake to the Placing Underwriter(s) not to dispose of, or enter into any agreement to dispose of, or otherwise create any options, rights, interest or encumbrances in respect of any of our Shares held by him/her/it in our Company for a period similar to that given by them pursuant to the Public Offer Underwriting Agreement as described in the paragraph “Underwriting arrangements and expenses — Public Offer Underwriting Agreement — Undertakings pursuant to the Public Offer Underwriting Agreement” in this section.

Commission and expenses

The Public Offer Underwriters will receive underwriting commission of 3% of the aggregate Offer Price payable for the Public Offer Shares in accordance with the terms of the Public Offer Underwriting Agreement, out of which the Public Offer Underwriters may pay any subunderwriting commission in connection with the Share Offer. The Placing Underwriters are expected to receive an underwriting commission on the aggregate Offer Price payable for the Placing Shares. The underwriting commission, documentation fee, Stock Exchange listing fees, brokerage, Stock Exchange trading fee, SFC transaction levy, legal and other professional fees together with applicable printing and other expense relating to the Share Offer are estimated to be approximately HK\$26.3 million in aggregate (based on an Offer Price of HK\$0.30 per Offer Share) and is paid or payable by our Company.

Underwriters’ interests in our Company

Save for its interests and obligations under the Underwriting Agreements and save as disclosed in this prospectus, none of the Underwriters or any of its associates is interested beneficially or nonbeneficially in any shares in any member of our Group nor has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any shares of any member of our Group.

UNDERWRITING

Sponsor's interest in our Company

Ample Capital, being the Sponsor, has declared its independence pursuant to Rule 6A.07 of the GEM Listing Rules. Save for the advisory and documentation fees to be paid to Ample Capital as the Sponsor to the Share Offer, its obligations under the Underwriting Agreements and any interests in securities that may be subscribed by it pursuant to the Share Offer, neither Ample Capital nor any of its associates has or may, as a result of the Share Offer, have any interest in any class of securities of our Company or any other company in our Group (including options or rights to subscribe for such securities).

No director or employee of Ample Capital who is involved in providing advice to our Company has or may, as a result of the Share Offer, have any interest in any class of securities of our Company or other company in our Group (including options or rights to subscribe for such securities but, for the avoidance of doubt, excluding interests in securities that may be subscribed for or purchased by any such director or employee pursuant to the Share Offer).

No director or employee of Ample Capital has a directorship in our Company or any other company in our Group.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

STRUCTURE OF THE SHARE OFFER

The Share Offer comprises:

- (i) the Public Offer of an aggregate of 25,000,000 Public Offer Shares (subject to reallocation as mentioned below) in Hong Kong; and
- (ii) the Placing of 225,000,000 Placing Shares (subject to reallocation as mentioned below).

Investors may apply for the Offer Shares under the Public Offer or, if qualified to do so, apply for or indicate an interest for the Offer Shares under the Placing, but may not do both. The Offer Shares will represent approximately 25% of the enlarged issued share capital of our Company immediately after completion of the Share Offer and the Capitalisation Issue (but without taking into account any options which may be granted under the Share Option Scheme). The number of Offer Shares to be offered under the Public Offer and the Placing, respectively, may be subject to reallocation as mentioned below.

CONDITIONS OF THE SHARE OFFER

The Share Offer is conditional upon:

- (i) the Listing Division of the Stock Exchange granting the approval of the listing of, and permission to deal in, the Shares in issue and the Shares to be allotted and issued as mentioned in this prospectus, and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- (ii) the Offer Price having been duly determined; and
- (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Joint Global Coordinators (for themselves and on behalf of the Underwriters)) and the Underwriting Agreements not being terminated in accordance with its terms, in each case, on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the 30th day after the date of this prospectus.

If such conditions have not been fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Share Offer will be published by our Company on the Stock Exchange's website at www.hkexnews.hk and our Company's website at amusegroupholding.com on the next business day following such lapse.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

THE PUBLIC OFFER

Number of Shares initially offered

We are initially offering 25,000,000 Public Offer Shares at the Offer Price, representing 10% of the Shares initially available under the Share Offer, for subscription by the public in Hong Kong. Subject to reallocation of Offer Shares between the Placing and the Public Offer, the number of Shares initially offered under the Public Offer will represent approximately 2.5% of our Company's enlarged issued share capital immediately after completion of the Share Offer and the Capitalisation Issue, and without taking into account Shares which may be issued upon exercise of options as may be granted under the Share Option Scheme. The Public Offer is open to members of the public in Hong Kong as well as to institutional professional and other investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing shares and other securities and corporate entities which regularly invest in shares and other securities. Completion of the Public Offer is subject to the conditions as set out in the paragraph headed "Conditions of the Share Offer" in this section.

Allocation

Allocation of the Offer Shares to investors under the Share Offer will be based solely on the level of valid applications received under the Share Offer. The basis of allocation may vary, depending on the number of the Public Offer Shares validly applied for by applicants. Allocation of the Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of the Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

Multiple or suspected multiple applications under the Public Offer and any application for more than 25,000,000 Public Offer Shares initially available for subscription will be rejected. Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not received any Shares under the Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

The final Offer Price, the level of indication of interest in the Placing, level of applications in the Public Offer and the basis of allocation of the Public Offer Shares are expected to be announced on Wednesday, 30 May 2018 through a variety of channels as described in paragraph headed "How to apply for Public Offer Shares — Publication of results".

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Reallocation

The allocation of Offer Shares between the Public Offer and the Placing is subject to reallocation on the following basis:

- (a) Where the Placing Shares are fully subscribed or oversubscribed:
 - (i) if the Public Offer Shares are undersubscribed, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) have the authority to reallocate all or any unsubscribed Public Offer Shares to the Placing, in such proportions as the Joint Global Coordinators (for themselves and on behalf of the Underwriters) deem appropriate;
 - (ii) if the Public Offer Shares are not undersubscribed but the number of Offer Shares validly applied for under the Public Offer represents less than 15 times the number of the Offer Shares initially available for subscription under the Public Offer, then up to 25,000,000 Offer Shares may be reallocated to the Public Offer from the Placing (as the Joint Global Coordinators deem appropriate), so that the total number of the Offer Shares available under the Public Offer will be increased to 50,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Share Offer;
 - (iii) if the number of Offer Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Public Offer, then 50,000,000 Shares will be reallocated to the Public Offer from the Placing, so that the total number of the Offer Shares available under the Public Offer will be increased to 75,000,000 Offer Shares, representing 30% of the number of the Offer Shares initially available under the Share Offer;
 - (iv) if the number of Offer Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Public Offer, then 75,000,000 Shares will be reallocated to the Public Offer from the Placing, so that the number of the Offer Shares available under the Public Offer will be increased to 100,000,000 Offer Shares, representing 40% of the number of the Offer Shares initially available under the Share Offer; and
 - (v) if the number of Offer Shares validly applied for under the Public Offer represents 100 times or more the number of the Offer Shares initially available for subscription under the Public Offer, then 100,000,000 Shares will be reallocated to the Public Offer from the Placing, so that the number of the Offer Shares available under the Public Offer will be increased to 125,000,000 Offer Shares, representing 50% of the number of the Offer Shares initially available under the Share Offer.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

- (b) Where the Placing Shares are undersubscribed:
- (i) if the Public Offer Shares are undersubscribed, the Share Offer will not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Share Offer on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements; and
 - (ii) if the Public Offer Shares are fully subscribed or oversubscribed irrespective of the number of times the number of Offer Shares initially available for subscription under the Public Offer, then up to 25,000,000 Offer Shares may be reallocated to the Public Offer from the Placing (as the Joint Global Coordinators deem appropriate), so that the total number of the Offer Shares available under the Public Offer will be increased to 50,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Share Offer.

In the event of reallocation of Offer Shares between the Public Offer and the Placing in the circumstances where (a) the Placing Shares are fully subscribed or oversubscribed and the Public Offer Shares are fully subscribed or oversubscribed by less than 15 times under paragraph (a)(ii) above; or (b) the Placing Shares are undersubscribed and the Public Offer Shares are fully subscribed or oversubscribed under paragraph (b)(ii) above, the final Offer Price shall be fixed at the low-end of the indicative Offer Price range (i.e. HK\$0.25 per Offer Share) stated in this prospectus.

In addition, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) may reallocate Offer Shares from the Placing to the Public Offer to satisfy valid applications under the Public Offer. In accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, if such reallocation is done other than pursuant to Practice Note 6 of the GEM Listing Rules, the maximum total number of Offer Shares that may be reallocated to the Public Offer following such reallocation shall be not more than double the initial allocation to the Public Offer (i.e. 50,000,000 Offer Shares). In each case, based on the additional Offer Shares reallocated to the Public Offer, the number of Offer Shares allocated to the Placing will be correspondingly reduced, in such manner as the Joint Global Coordinators (for themselves and on behalf of the Underwriters) deem appropriate, subject to Guidance Letter HKEX-GL91-18. In addition, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) may in their sole and absolute discretion reallocate Offer Shares from the Placing to the Public Offer in order to ensure the existence of an open market.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Public Offer.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

THE PLACING

Number of the Offer Shares initially offered

Subject to the reallocation as described above, the number of Offer Shares to be initially offered under the Placing will be 225,000,000 Shares, representing 90% of the total number of the Offer Shares initially available under the Share Offer. Subject to the reallocation of the Offer Shares between the Placing and the Public Offer, the number of Shares initially offered under the Placing will represent approximately 22.5% of our Company's enlarged issue share capital immediately after the completion of the Share Offer and the Capitalisation Issue, but without taking into account Shares which may be upon exercise of options granted under the Share Option Scheme.

Allocation

Pursuant to the Placing, the Placing Shares will be conditionally placed by the Placing Underwriter(s). The Placing Shares will be selectively placed to certain professional and institutional and other investors. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Private investors applying through banks or other institutions who sought the Placing Shares in the Placing may also be allocated the Placing Shares. The Placing is subject to the Public Offer being unconditional.

Allocation of Offer Shares pursuant to the Placing will be effected in accordance with the bookbuilding process described in the paragraph headed "Offer Price" in this section and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our Shareholders as a whole.

The Joint Global Coordinators may require any investor who has been offered Placing Shares under the Placing, and who has made an application under the Public Offer, to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Public Offer and to ensure that they are excluded from any application of Offer Shares under the Public Offer.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

OFFER PRICE

Determination of the Offer Price

The Offer Price will be fixed by the Price Determination Agreement on the Price Determination Date, which is expected to be on or around Thursday, 24 May 2018. If the Joint Global Coordinators (for themselves and on behalf of the other Underwriters) and our Company are unable to reach an agreement on the Offer Price on or before 12:00 noon on Saturday, 26 May 2018, the Share Offer will not become unconditional and will not proceed.

If for any reason the Price Determination Date is changed, our Company will as soon as practicable cause to be published on the website of the Stock Exchange at www.hkexnews.hk and our Company's website at amusegroupholding.com a notice of the change and if applicable the revised date.

Offer Price range

The Offer Price will not be more than HK\$0.35 per Offer Share and is expected to be not less than HK\$0.25 per Offer Share. The Offer Price will fall within the indicative Offer Price range as stated in this prospectus unless otherwise announced.

Reduction in Offer Price range and/or number of Offer Shares

The Joint Global Coordinators (for themselves and on behalf of the other Underwriters) may, with the consent of our Company, reduce the indicative Offer Price range to below that stated in this prospectus at any time prior to the Price Determination Date. In such a case, our Company will, as soon as practicable following the decision to make such reduction, cause to be published on the website of the Stock Exchange at www.hkexnews.hk and our Company's website at amusegroupholding.com an announcement of such change on or before the Price Determination Date. In addition, we will:

- (i) issue a supplemental prospectus updating investors of the reduction in the indicative offer price together with an update of all financial and other information in connection with such change;
- (ii) extend the period under which the offer was open for acceptance to allow potential investors sufficient time to consider their subscriptions or reconsider their existing subscriptions; and
- (iii) give potential investors who had applied for the Offer Shares the right to withdraw their applications given the change in circumstances.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Upon issue of such an announcement and supplemental prospectus, the revised indicative Offer Price range and/or number of Offer Shares will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company will be fixed within such revised range. Such an announcement and supplemental prospectus will also include confirmation or revision, as appropriate, of the working capital statement and the Share Offer statistics as currently set out in this prospectus, and any other financial information which may change materially as a result of such reduction.

Prospective investors of the Offer Shares should be aware that the Offer Price to be determined on the Price Determination Date may be, but is currently not expected to be, lower than the indicative Offer Price range stated in this prospectus.

Before submitting applications for Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range and/or number of Offer Shares may not be made until Price Determination Date.

Applicants who have submitted their applications for Public Offer Shares before such announcement is made may subsequently withdraw their applications in the event that such announcement is subsequently made. In the absence of any such announcement so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company will under no circumstances be set outside the offer price range as stated in this prospectus.

Price payable on application

The Offer Price will not be more than HK\$0.35 per Offer Share and is expected to be not less than HK\$0.25 per Offer Share. Applicants under the Public Offer should pay, on application, the maximum Offer Price of HK\$0.35 per Offer Share plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.0027% SFC transaction levy, amounting to a total of HK\$2,828.22 per board lot of 8,000 Offer Shares. If the Offer Price, as finally determined in the manner described above, is lower than the maximum Offer Price of HK\$0.35 per Offer Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application monies) will be made to applicants, without interest.

ANNOUNCEMENT OF OFFER PRICE AND BASIS OF ALLOCATION

Announcement of the final Offer Price, together with the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares is expected to be published on the website of the Stock Exchange at www.hkexnews.hk and our Company's website at amusegroupholding.com on Wednesday, 30 May 2018.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM are expected to commence on Thursday, 31 May 2018. The Shares will be traded in board lots of 8,000 Shares each. The GEM stock code for the Shares is 8545.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Application has been made to the Stock Exchange for the listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus. If the Stock Exchange grants the listing of and permission to deal in the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or, under contingent situation, any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

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

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interest.

Details of the Share Offer will be announced in accordance with Rules 10.12(4), 16.08 and 16.16 of the GEM Listing Rules.

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for Offer Shares will be conditional on, among other things:

- (i) the Stock Exchange granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer (including the additional Shares which may be allotted and issued pursuant to the Capitalisation Issue and Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme) and such listing and permission not subsequently being revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- (ii) the obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements; and
- (iii) the Offer Price having been determined and the execution of the Price Determination Agreement on or before the Price Determination Date,

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and, in any event, not later than the date which is 30 days after the date of this prospectus.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Public Offer will be published by the Company on the websites of the Company and the Stock Exchange at amusegroupholding.com and www.hkexnews.hk respectively, on the next day following such lapse. In such a situation, all application monies will be returned, without interest, on the terms set out in “How to apply for Public Offer Shares — 12. Refund of application monies”. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

HOW TO APPLY FOR PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for Placing Shares.

To apply for Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, Joint Global Coordinators, and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four for the Public Offer Shares.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Unless permitted by the GEM Listing Rules, you cannot apply for any Public Offer Shares if you:

- are an existing beneficial owner of Shares and/or any of our subsidiaries;
- are a Director or chief executive officer of our Company and/or any of our subsidiaries;
- are an associate (as defined in the GEM Listing Rules) of any of the above;
- are a connected person of our Company or will become a connected person of our Company immediately upon completion of the Share Offer; and
- have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

3. APPLYING FOR PUBLIC OFFER SHARES

Which Application Channel to Use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form.

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 18 May 2018 to 12:00 noon on Thursday, 24 May 2018 from:

- (i) the following office of the Joint Global Coordinators:

Alpha Financial Group Limited

Room A, 17/F
Fortune House
61 Connaught Road Central
Central, Hong Kong

Quasar Securities Co., Limited

Unit A, 12/F
Harbour Commercial Building
122-124 Connaught Road Central
Central, Hong Kong

HOW TO APPLY FOR PUBLIC OFFER SHARES

(ii) the following office of the Sponsor:

Ample Capital Limited
 Unit A, 14/F
 Two Chinachem Plaza
 135 Des Voeux Road Central
 Central, Hong Kong

(iii) any of the following branches of **DBS Bank (Hong Kong) Limited**:

District	Branch Name	Address
Hong Kong Island	Head Office	G/F, The Center 99 Queen's Road Central Central
	Aberdeen Branch	Shops A & B, G/F, Units A & B, 1/F On Tai Building, 1-3 Wu Nam Street Aberdeen
Kowloon	Yaumatei Branch	G/F & 1/F, 131-137 Woosung Street Yaumatei
New Territories	Tuen Mun Town Plaza – SME Banking Centre	Shop 23, G/F, Tuen Mun Town Plaza (II) 3 Tuen Lung Street Tuen Mun

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 18 May 2018 until 12:00 noon on Thursday, 24 May 2018 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker, who may have such Application Forms and this prospectus available.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Ting Hong Nominees Limited — Amuse Group Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Friday, 18 May 2018	—	9:00 a.m. to 5:00 p.m.
Saturday, 19 May 2018	—	9:00 a.m. to 1:00 p.m.
Monday, 21 May 2018	—	9:00 a.m. to 5:00 p.m.
Wednesday, 23 May 2018	—	9:00 a.m. to 5:00 p.m.
Thursday, 24 May 2018	—	9:00 a.m. to 12:00 noon

HOW TO APPLY FOR PUBLIC OFFER SHARES

The application for the Share Offer will commence on Friday, 18 May 2018 through Thursday, 24 May 2018, being slightly longer than normal market practice of four days.

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 24 May 2018, the last application day or such later time as described in the paragraph headed “9. Effect of bad weather on the opening of the applications lists” in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form, among other things, (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person of whom you act:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Law, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Memorandum and Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Share Offer in this prospectus;
- (vi) agree that none of our Company, the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);

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- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing nor participated in the Placing;
- (viii) agree to disclose to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sponsor, the Joint Global Coordinators, the Joint Bookrunners and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

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- (xvii) understand that our Company, the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, any of their respective directors, officers or representatives or any other person or parties involved in the Share Offer will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii)(if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

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HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square,
8 Connaught Place,
Central, Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Global Coordinators and our Hong Kong Branch Share Registrar.

Giving electronic application instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Public Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Placing Shares under the Placing;
 - (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;

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- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
- confirm that you understand that our Company, our Directors, the Joint Global Coordinators and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Public Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Law, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Memorandum and Articles of Association of our Company; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

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Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 8,000 Public Offer Shares. Instructions for more than 8,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Friday, 18 May 2018	—	9:00 a.m. to 8:30 p.m. ⁽¹⁾
Monday, 21 May 2018	—	8:00 a.m. to 8:30 p.m. ⁽¹⁾
Wednesday, 23 May 2018	—	8:00 a.m. to 8:30 p.m. ⁽¹⁾
Thursday, 24 May 2018	—	8:00 a.m. ⁽¹⁾ to 12:00 noon

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

HOW TO APPLY FOR PUBLIC OFFER SHARES

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, 18 May 2018 until 12:00 noon on Thursday, 24 May 2018 (24 hours daily, except on Saturday, 19 May 2018 and on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, 24 May 2018, the last application day or such later time as described in the paragraph headed “9. Effect of bad weather on the opening of the application lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 (as applied by Section 342E) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving bank, the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

6. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sponsor, the Joint Global Coordinators, the Joint Bookrunners and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant will be allotted any Public Offer Shares.

HOW TO APPLY FOR PUBLIC OFFER SHARES

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCAS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, 24 May 2018.

7. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

HOW TO APPLY FOR PUBLIC OFFER SHARES

8. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for the Public Offer Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form in respect of a minimum of 8,000 Public Offer Shares. Each application or **electronic application instruction** in respect of more than 8,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure and conditions of the Share Offer — Offer Price” of this prospectus.

9. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 24 May 2018.

Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Thursday, 24 May 2018 or if there is a tropical cyclone warning signal number eight or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected timetable” of this prospectus, an announcement will be made in such event.

HOW TO APPLY FOR PUBLIC OFFER SHARES

10. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Wednesday, 30 May 2018 on our Company's website at amusegroupholding.com and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at amusegroupholding.com and the Stock Exchange's website at www.hkexnews.hk by no later than 8:00 a.m. on Wednesday, 30 May 2018;
- from the designated results of allocations website at www.tricor.com.hk/ipo/result with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Wednesday, 30 May 2018 to 12:00 midnight on Tuesday, 5 June 2018;
- by telephone enquiry line by calling +852 3691 8488 between 9:00 a.m. and 6:00 p.m. from Wednesday, 30 May 2018 to Monday, 4 June 2018 on a Business Day; and
- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, 30 May 2018 to Friday, 1 June 2018 at the designated receiving bank branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in the section headed "Structure and conditions of the Share Offer".

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

HOW TO APPLY FOR PUBLIC OFFER SHARES

11. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

You should note the following situations in which the Public Offer shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 (as applied by Section 342E) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or our agents exercise their discretion to reject your application:

Our Company, the Joint Global Coordinators, the Joint Bookrunners, and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares will be void if the Listing Division of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or

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- within a longer period of up to six weeks if the Listing Division of the Stock Exchange notifies our Company of that longer period within three weeks of the closing date of the application lists.
- (iv) **If:**
- you make multiple applications or suspected multiple applications;
 - you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
 - your Application Form is not completed in accordance with the stated instructions;
 - your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
 - the Underwriting Agreements do not become unconditional or are terminated;
 - our Company, the Joint Global Coordinators or the Joint Bookrunners believe that by accepting your application, it would violate applicable securities or other laws, rules or regulations; or
 - your application is for more than 25,000,000 Public Offer Shares initially offered under the Public Offer.

12. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$0.35 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with "Structure and conditions of the Share Offer — Conditions of the Share Offer" of this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Wednesday, 30 May 2018.

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13. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Wednesday, 30 May 2018. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Thursday, 31 May 2018 provided that the Share Offer has become unconditional and the right of termination described in the section headed “Underwriting” of this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Hong Kong Branch Share Registrar at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 30 May 2018 or such other date as notified by us.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Wednesday, 30 May 2018, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above for collection of refund cheque(s). If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Wednesday, 30 May 2018, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Wednesday, 30 May 2018, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS participant.

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- *If you are applying as a CCASS investor participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 30 May 2018 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply via Electronic Application Instructions to HKSCC

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, 30 May 2018, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer in the manner specified in the sub-paragraph headed "Publication of results" above in this section on Wednesday, 30 May 2018.

You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 30 May 2018 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

HOW TO APPLY FOR PUBLIC OFFER SHARES

- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 30 May 2018. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 30 May 2018.

14. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the GEM Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-46, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF AMUSE GROUP HOLDING LIMITED AND AMPLE CAPITAL LIMITED

Introduction

We report on the historical financial information of Amuse Group Holding Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) set out on pages I-4 to I-46, which comprises the consolidated statements of financial position of the Group as at 31 March 2016 and 2017 and 31 December 2017 and the statements of financial position of the Company as at 31 March 2017 and 31 December 2017 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements, for each of the years ended 31 March 2016 and 2017 and the nine months ended 31 December 2017 (the “**Relevant Periods**”), and a summary of significant accounting policies and other explanatory information (together, the “**Historical Financial Information**”). The Historical Financial Information set out on pages I-4 to I-46 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 18 May 2018 (the “**Prospectus**”) in connection with the initial listing of shares of the Company on GEM of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that give a true and fair view in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Group's financial position as at 31 March 2016 and 2017 and 31 December 2017 and the Company's financial position as at 31 March 2017 and 31 December 2017 and of the Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information.

Review of stub period corresponding financial information

We have reviewed the stub period corresponding financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the nine months ended 31 December 2016 and other explanatory information (the "**Stub Period Corresponding Financial Information**"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information based on our review.

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Corresponding Financial Information, for the purpose of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to note 18(e) to the Historical Financial Information which contains information about the dividends paid by the Company and its subsidiaries in respect of the Relevant Periods.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its incorporation.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

18 May 2018

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG under separate terms of engagement with the Company in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

1 Consolidated statements of profit or loss and other comprehensive income
(Expressed in Hong Kong dollars)

		Year ended 31 March		Nine months ended 31 December	
	Note	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000
				(Unaudited)	
Revenue	4	123,154	136,888	106,538	94,002
Cost of sales		<u>(90,942)</u>	<u>(96,766)</u>	<u>(75,961)</u>	<u>(66,992)</u>
Gross profit		32,212	40,122	30,577	27,010
Other net income	5	2,567	2,187	572	2,680
Selling expenses		(3,146)	(3,838)	(3,136)	(3,346)
Administrative expenses		(9,102)	(11,478)	(8,188)	(9,327)
Listing expenses		-	(12,501)	(5,034)	(3,803)
Valuation (loss)/gain on investment property	10	<u>(360)</u>	<u>1,360</u>	<u>590</u>	<u>1,000</u>
Profit from operations		22,171	15,852	15,381	14,214
Finance costs	6(a)	<u>(74)</u>	<u>(113)</u>	<u>(82)</u>	<u>(81)</u>
Profit before taxation	6	22,097	15,739	15,299	14,133
Income tax expense	7	<u>(3,838)</u>	<u>(4,467)</u>	<u>(3,298)</u>	<u>(2,892)</u>
Profit and total comprehensive income for the year/period		<u>18,259</u>	<u>11,272</u>	<u>12,001</u>	<u>11,241</u>
Earnings per share for profit attributable to owners of the Company					
- Basic and diluted (in \$)	18(g)	<u>913</u>	<u>564</u>	<u>600</u>	<u>562</u>

The accompanying notes form part of the Historical Financial Information.

2 **Consolidated statements of financial position**
(Expressed in Hong Kong dollars)

	Note	At 31 March 2016 \$'000	2017 \$'000	At 31 December 2017 \$'000
Non-current assets				
Investment property	10	7,440	8,800	9,800
Property, plant and equipment	10	11,036	14,147	15,800
Other receivables	12	457	–	–
Deferred tax assets	17(b)	56	21	23
		<u>18,989</u>	<u>22,968</u>	<u>25,623</u>
Current assets				
Inventories	11	1,465	2,937	1,800
Trade and other receivables	12	18,280	26,782	35,618
Amounts due from shareholders	14	–	–*	–
Amount due from a director	14	3,532	2,678	–
Current tax recoverable	17(a)	–	–	2,383
Cash and cash equivalents	13(a)	52,027	32,282	25,704
		<u>75,304</u>	<u>64,679</u>	<u>65,505</u>
Current liabilities				
Trade and other payables	15	29,651	19,107	18,600
Bank loans	16	6,961	6,731	6,635
Amount due to a director	14	–	–	65
Current tax payable	17(a)	4,142	1,434	47
Obligations under finance leases		126	–	–
		<u>40,880</u>	<u>27,272</u>	<u>25,347</u>
Net current assets		<u>34,424</u>	<u>37,407</u>	<u>40,158</u>
Total assets less current liabilities		<u>53,413</u>	<u>60,375</u>	<u>65,781</u>
Non-current liabilities				
Deferred tax liabilities	17(b)	<u>963</u>	<u>653</u>	<u>818</u>
NET ASSETS		<u>52,450</u>	<u>59,722</u>	<u>64,963</u>
Capital and reserves				
Share capital	18	129	–*	–*
Reserves		<u>52,321</u>	<u>59,722</u>	<u>64,963</u>
TOTAL EQUITY		<u>52,450</u>	<u>59,722</u>	<u>64,963</u>

* The balances represent amounts less than \$1,000.

The accompanying notes form part of the Historical Financial Information.

3 Statements of financial position of the Company*(Expressed in Hong Kong dollars)*

	<i>Note</i>	At 31 March 2017 \$'000	At 31 December 2017 \$'000
Non-current assets			
Investments in subsidiaries	1	155	155
Current assets			
Amount due from a subsidiary		–	7,192
Amounts due from shareholders		–*	–
Cash and cash equivalents		–*	108
		–*	7,300
Current liabilities			
Amounts due to subsidiaries		–	6,312
Net current assets			
		–*	988
Total assets less current liabilities			
		155	1,143
NET ASSETS			
		155	1,143
Capital and reserves			
	18	–*	–*
Share capital		–*	–*
Merger reserve		155	155
Retained profits		–	988
TOTAL EQUITY			
		155	1,143

* The balances represent amounts less than \$1,000.

The accompanying notes form part of the Historical Financial Information.

4 Consolidated statements of changes in equity*(Expressed in Hong Kong dollars)*

	Note	Share Capital \$'000	Land and buildings revaluation reserve (note 18(c)) \$'000	Merger reserve (note 18(d)) \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 April 2015		42	1,242	-	42,820	44,104
Changes in equity for year ended 31 March 2016:						
Profit for the year		-	-	-	18,259	18,259
Total comprehensive income for the year		-	-	-	18,259	18,259
Issue of shares		87	-	-	-	87
Dividends declared during the year	18(e)	-	-	-	(10,000)	(10,000)
Balance at 31 March 2016 and 1 April 2016		129	1,242	-	51,079	52,450
Changes in equity for year ended 31 March 2017:						
Profit for the year		-	-	-	11,272	11,272
Total comprehensive income for the year		-	-	-	11,272	11,272
Arising from reorganisation		(129)	-	129	-	-
Dividends declared during the year	18(e)	-	-	-	(4,000)	(4,000)
Balance at 31 March 2017 and 1 April 2017		-*	1,242	129	58,351	59,722

	Note	Share Capital \$'000	Land and buildings revaluation reserve (note 18(c)) \$'000	Merger reserve (note 18(d)) \$'000	Retained profits \$'000	Total equity \$'000
Changes in equity for the nine months ended 31 December 2017:						
Profit for the period		-	-	-	11,241	11,241
Total comprehensive income for the period		-	-	-	11,241	11,241
Dividends declared during the period	18(e)	-	-	-	(6,000)	(6,000)
Balance at 31 December 2017		-*	1,242	129	63,592	64,963
(Unaudited)						
Balance at 1 April 2016		129	1,242	-	51,079	52,450
Changes in equity for the nine months ended 31 December 2016:						
Profit for the period		-	-	-	12,001	12,001
Total comprehensive income for the period		-	-	-	12,001	12,001
Dividends declared during the period	18(e)	-	-	-	(4,000)	(4,000)
Balance at 31 December 2016		129	1,242	-	59,080	60,451

* The balance represents amount less than \$1,000.

The accompanying notes form part of the Historical Financial Information.

5 Consolidated cash flow statements
(Expressed in Hong Kong dollars)

	Note	Year ended 31 March		Nine months ended 31 December	
		2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000
(Unaudited)					
Operating activities					
Cash generated from/(used in) operations	13(b)	30,249	864	(4,534)	8,375
Income tax paid		(840)	(7,450)	(913)	(6,499)
Net cash generated from/(used in) operating activities		<u>29,409</u>	<u>(6,586)</u>	<u>(5,447)</u>	<u>1,876</u>
Investing activities					
Interest received		190	53	15	128
Payment for the purchase of equipment, furniture and fixtures		(4,237)	(8,079)	(1,977)	(3,991)
Proceeds from the disposal of equipment, furniture and fixtures		-	70	70	-
Net cash used in investing activities		<u>(4,047)</u>	<u>(7,956)</u>	<u>(1,892)</u>	<u>(3,863)</u>
Financing activities					
Capital element of finance lease rental paid		(186)	(126)	(103)	-
Repayment of bank loans		(250)	(230)	(174)	(96)
Proceeds from shares upon incorporation		87	-	-	-
Increase in amount due from a director		(2,175)	(3,146)	(5,976)	(2,357)
Dividends paid		(10,000)	-	-	(900)
Listing expenses paid		-	(1,588)	(1,068)	(1,157)
Interest paid		(74)	(113)	(82)	(81)
Net cash used in financing activities		<u>(12,598)</u>	<u>(5,203)</u>	<u>(7,403)</u>	<u>(4,591)</u>
Net increase/(decrease) in cash and cash equivalents		<u>12,764</u>	<u>(19,745)</u>	<u>(14,742)</u>	<u>(6,578)</u>
Cash and cash equivalents at the beginning of the year/period		<u>39,263</u>	<u>52,027</u>	<u>52,027</u>	<u>32,282</u>
Cash and cash equivalents at the end of the year/period	13(a)	<u>52,027</u>	<u>32,282</u>	<u>37,285</u>	<u>25,704</u>

The accompanying notes form part of the Historical Financial Information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1 BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION**

Amuse Group Holding Limited (the “**Company**”) was incorporated on 16 November 2016 as an exempted company with limited liability under the Companies Law (2011 Revision) (as consolidated and revised) of the Cayman Islands.

The Company is an investment holding company. The Company has not carried on any business since the date of its incorporation save for the group reorganisation below. The Company and its subsidiaries (together, “**the Group**”) are principally engaged in design, marketing, distribution and retail sales of toys and related products.

Pursuant to a group reorganisation completed on 7 March 2017 (the “**Reorganisation**”), the Company became the holding company of the companies now comprising the Group. The companies that took part in the Reorganisation were controlled by Mr. Li Wai Keung (the “**Controlling Shareholder**”) prior to and after the Reorganisation. The control is not transitory and, consequently, there was a continuation of the risks and benefits to the Controlling Shareholder and there was no change in the economic substance of the business of the Group. Therefore, the Reorganisation is considered as a business combination of entities under common control. The Historical Financial Information has been prepared using the merger basis of accounting as if the companies now comprising the Group have been consolidated at the beginning of the Relevant Periods unless the combining companies first came under common control at a later date. The assets and liabilities of the combining companies are consolidated using the existing book values from the Controlling Shareholder’s perspective.

The consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group include the consolidated results of operations of the companies comprising the Group for the Relevant Periods as if the current group structure had been in existence throughout the Relevant Periods. The consolidated statements of financial position of the Group as at 31 March 2016 and 2017 and 31 December 2017 have been prepared to present the state of affairs of the Group as at the respective dates as if the Reorganisation had occurred at the beginning of the Relevant Periods.

All material intra-group balances and intra-group transactions have been eliminated in preparing the Historical Financial Information.

As at the date of this report, no audited financial statements have been prepared for the Company, Amuse International Investment Ltd., D4 Toys (oversea) Co., Ltd and Sentinel International (US) Company Limited, as they either have not carried on any business since the date of incorporation or are investment holding companies and not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation. The financial statements of the subsidiaries of the Group for which there are statutory requirements were prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

Upon completion of the Reorganisation and as at the date of this report, the Company has direct or indirect interests in the following principal subsidiaries, all of which are private companies:

Name of Company	Place or country of incorporation or registration/operation	Class of shares held	Issued and paid up share capital/registered capital	Effective percentage of issue share capital/registered capital held by the Company		Principal activities	Name of statutory auditor
				Directly	Indirectly		
Amuse International Investment Ltd. <i>(Note (a))</i>	British Virgin Islands	Ordinary	US\$20,000	100%	–	Investment holding	N/A
Bestone Creative Development Limited <i>(Note (b))</i>	Hong Kong	Ordinary	HK\$10,000	–	100%	Design and sale of toys and related products	KPMG
Sentinel International Co., Limited <i>(Note (b))</i>	Hong Kong	Ordinary	HK\$12,000	–	100%	Design and sale of toys and related products	KPMG
Lai Ga Toys Co., Limited <i>(Note (b))</i>	Hong Kong	Ordinary	HK\$10,000	–	100%	Design and sale of toys and related products	KPMG
D4 Toys Co., Limited <i>(Note (b))</i>	Hong Kong	Ordinary	HK\$10,000	–	100%	Sale and marketing of toys	KPMG
Moon One Toys Co., Limited <i>(Note (b))</i>	Hong Kong	Ordinary	HK\$10,000	–	100%	Sale and marketing of toys	KPMG
D4 Toys (oversea) Co., Ltd <i>(Note (a))</i>	British Virgin Islands	Ordinary	US\$50,000	–	100%	Dormant	N/A
Sentinel International (US) Company Limited <i>(Note (a))</i>	The United States	Ordinary	US\$1	–	100%	Dormant	N/A

Notes:

- (a) No audited financial statements have been prepared for these entities since incorporation.
- (b) The statutory financial statements of these entities for the years ended 31 March 2016 and 2017 prepared under HKFRSs were audited by KPMG.

All companies now comprising the Group have adopted 31 March as their financial year end date.

The Historical Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). Further details of the significant accounting policies adopted are set out in note 2.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Historical Financial Information, the Group has adopted all applicable new and revised HKFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the Relevant Periods. The revised and new accounting standards and interpretations issued but not yet effective for the Relevant Periods are set out in note 24.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

The Stub Period Corresponding Financial Information has been prepared in accordance with the same basis of preparation and presentation adopted in respect of the Historical Financial Information.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of measurement

The Historical Financial Information is presented in Hong Kong Dollars (“HK\$” rounded to nearest thousand). The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis except the investment property is stated at their fair value as explained in note 2(d).

(b) Use of estimate and judgement

The preparation of Historical Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(g)).

(d) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold or freehold interest to earn rental income and/or for capital appreciation.

Investment properties are stated at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the consolidated statement of profit or loss. Rental income from investment properties is accounted for as described in the accounting policy set out in note 2(p)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation in long term, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease, and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(g)). Depreciation is calculated to write off the cost of items of property, plant and equipment using the straight-line method over their estimated useful lives as follows:

- Leasehold land classified as held under finance lease is depreciated over the unexpired term of lease
- Building situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives
- Leasehold improvements 5 years
- Office equipment 5 years
- Motor vehicles 30%
- Moulds Shorter of the licensed period of 2 to 3 years or the remaining of licensed period

Gain or loss arising from disposal or retirement of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(f) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) *Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset or, if lower, the present value of the minimum lease payments, of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset as set out in note 2(e). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(g). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) *Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(g) Impairment of assets

(i) *Impairment of receivables*

Current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial Reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group. If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit and loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of debtors included within debtors, other receivables, deposits and prepayments, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the investment in subsidiaries and property, plant and equipment may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years/period. Reversals of impairment losses are credited to profit or loss in the year/period in which the reversals are recognised.

(h) **Inventories**

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(g)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(j) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(k) Trade and other payables

Trade and other payables are initially recognised at fair value, and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(m) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(n) Income tax

Income tax for the year/period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(d), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises for domestic sales or when goods are shipped on board for export sales which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue is after deduction of any trade discounts.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in the profit or loss as an integral part of the aggregate net lease payments receivable.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(q) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies and non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

(r) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

(s) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(t) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

Note 20 contains information about the Group's risk management policies. Other estimates and assumptions are discussed below:

(a) Estimated useful lives of property, plant and equipment

The Group estimates the useful lives of its property, plant and equipment based on the periods cover which the assets are expected to be available for use. The Group reviews annually their estimated useful lives, based on factors that include asset utilisation, the expected physical wear and tear, environmental factors and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operation could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of property, plant and equipment would increase depreciation charges and decrease the carrying amount of property, plant and equipment.

(b) Impairment of assets

The Group assesses the impairment of assets in accordance with the accounting policy set out in note 2(g). The factors that the Group considers important in assessing the impairment include the following:

- significant underperformance relative to expected historical or projected future operating results; and
- significant negative industry or economic trends.

Negative changes in factors listed above will affect profit or loss in future years.

4 REVENUE AND SEGMENT REPORTING**(a) Revenue**

The principal activities of the Group are design, marketing, distribution and retail sales of toys and related products.

The Group's revenue comprised the sales of Original Design Manufacturing ("ODM") toys to license holders, sale of own licensed toys and distribution of imported toys and is analysed by principal activities as follows:

	Year ended 31 March		Nine months ended 31 December	
	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000
			(Unaudited)	
Sales of ODM toys to license holders	85,525	83,888	65,518	61,282
Distribution of imported toys	22,675	27,580	23,898	16,260
Sales of own licensed toys	14,954	25,420	17,122	16,460
	123,154	136,888	106,538	94,002

The Group's customers are primarily distributors based in Japan. During the Track Record Period, the percentage of revenue contributed by the Group's five largest customers for the years ended 31 March 2016 and 2017 and the nine months ended 31 December 2017 amounted to approximately 82%, 78% and 77% respectively. Further details regarding the Group's principal activities are disclosed below.

The Group manages its business by three divisions, namely sale of ODM toys, sale of own licensed toys and distribution of imported toys. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

For the purpose of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results based on the revenue and expenses which are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

Segment assets, segment liabilities and other segment information is not reported or used by the Group's most senior executive management.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 March 2016 and 2017 and the nine months ended 31 December 2017 is set out below.

	Sales of ODM toys			Sales of own licensed toys			Distribution of imported toys			Total						
	Year ended	Nine months ended 31 December		Year ended	Nine months ended 31 December		Year ended	Nine months ended 31 December		Year ended	Nine months ended 31 December					
	2016 \$'000	2017 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2017 \$'000				
Revenue from external customers	85,525	83,888	65,518	61,282	14,954	25,420	17,122	16,460	22,675	27,580	23,898	16,260	123,154	136,888	106,538	94,002
Inter-segment revenue	-	-	-	-	8,158	15,448	10,412	10,684	5,956	6,457	5,988	2,639	14,114	21,905	16,400	13,323
Reportable segment revenue	85,525	83,888	65,518	61,282	23,112	40,868	27,534	27,144	28,631	34,037	29,886	18,899	137,268	158,793	122,938	107,325
Reportable segment profit	10,979	10,634	9,161	7,996	5,163	8,598	5,221	3,982	3,822	5,574	4,871	2,359	19,964	24,806	19,253	14,337
Depreciation for the year/period	576	606	420	425	2,085	4,296	3,523	1,885	39	66	25	28	2,700	4,968	3,968	2,338

(b) Reconciliations of reportable segment profit

	Year ended 31 March		Nine months ended 31 December	
	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000
			(Unaudited)	
Profit				
Reportable segment profit derived from the Group's external customers	19,964	24,806	19,253	14,337
Other net income	2,567	2,187	572	2,680
Listing expenses	-	(12,501)	(5,034)	(3,803)
Finance costs	(74)	(113)	(82)	(81)
Valuation (loss)/gain on investment property	(360)	1,360	590	1,000
Consolidated profit before taxation	<u>22,097</u>	<u>15,739</u>	<u>15,299</u>	<u>14,133</u>

(c) Geographic information

The following table sets out information about the geographic location of (i) sale of ODM toys, (ii) sale of own licensed toys and (iii) distribution of imported toys. The geographical location of customers is based on the location at which the goods were delivered.

	Revenue from external customers			
	Year ended 31 March		Nine months ended 31 December	
	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000
			(Unaudited)	
Hong Kong (place of domicile)	13,509	22,896	19,327	17,017
Japan	82,439	85,396	65,726	63,617
USA	6,843	5,968	5,619	1,296
People's Republic of China ("PRC")	4,742	10,622	6,435	4,446
Others	15,621	12,006	9,431	7,626
	<u>109,645</u>	<u>113,992</u>	<u>87,211</u>	<u>76,985</u>
	<u>123,154</u>	<u>136,888</u>	<u>106,538</u>	<u>94,002</u>

(d) Information about major customers

Revenue from customers during the Relevant Periods contributing over 10% of the Group's revenue are as follows:

	Year ended 31 March		Nine months ended 31 December	
	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000
			(Unaudited)	
Group's largest customer	<u>82,421</u>	<u>85,396</u>	<u>65,726</u>	<u>63,617</u>

5 OTHER NET INCOME

	Year ended 31 March		Nine months ended 31 December	
	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000
			(Unaudited)	
Bank interest income	190	53	15	128
Net exchange (loss)/gain	(140)	(402)	(1,421)	771
Gain on disposal on property, plant and equipment	–	70	70	–
Rental income	–	60	20	180
Freight charge income	471	397	311	667
Management fee income	1,660	1,561	1,310	911
License fee income	225	–	–	–
Sundry income	161	448	267	23
	2,567	2,187	572	2,680
	2,567	2,187	572	2,680

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Year ended 31 March		Nine months ended 31 December	
	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000
			(Unaudited)	
(a) Finance costs, net				
Interest on bank loan and overdrafts (note 13(c))	60	111	80	81
Interest on finance lease (note 13(c))	14	2	2	–
	74	113	82	81
	74	113	82	81
(b) Staff costs				
Salaries, wages and other benefits	3,707	4,461	3,105	3,827
Contribution to defined retirement benefit	159	204	135	184
	3,866	4,665	3,240	4,011
	3,866	4,665	3,240	4,011
(c) Other items				
Depreciation of property, plant and equipment	2,700	4,968	3,968	2,338
Auditors' remuneration	750	771	563	563
Operating lease charges for land and buildings	877	1,197	911	812
	877	1,197	911	812
	877	1,197	911	812

7 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

- (a) Income tax in the consolidated statements of profit or loss and other comprehensive income represents:

	Year ended 31 March		Nine months ended 31 December	
	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000
			(Unaudited)	
Current tax				
Provision for the year/period	3,690	4,912	3,750	2,692
Under/(over)-provision in respect of prior years	<u>28</u>	<u>(170)</u>	<u>(170)</u>	<u>37</u>
Deferred tax	3,718	4,742	3,580	2,729
Origination and reversal of temporary differences	<u>120</u>	<u>(275)</u>	<u>(282)</u>	<u>163</u>
Income tax expense	<u><u>3,838</u></u>	<u><u>4,467</u></u>	<u><u>3,298</u></u>	<u><u>2,892</u></u>

- (b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Year ended 31 March		Nine months ended 31 December	
	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000
			(Unaudited)	
Profit before taxation	<u>22,097</u>	<u>15,739</u>	<u>15,299</u>	<u>14,133</u>
Notional tax on profit before taxation, calculated at the rates applicable in the tax jurisdictions concerned	3,646	4,894	3,520	3,112
Tax effect of non-deductible expenses	261	50	126	121
Tax effect of non-taxable income	(31)	(235)	(100)	(281)
Under/(over)-provision in prior years	28	(170)	(170)	37
Others	<u>(66)</u>	<u>(72)</u>	<u>(78)</u>	<u>(97)</u>
	<u><u>3,838</u></u>	<u><u>4,467</u></u>	<u><u>3,298</u></u>	<u><u>2,892</u></u>

8 DIRECTORS' EMOLUMENTS

Directors' emoluments are disclosed as follows:

	Salaries, allowances and benefits in kind \$'000	Retirement scheme contributions \$'000	Total \$'000
Year ended March 31, 2016			
<i>Directors</i>			
Mr. Li Wai Keung	943	31	974
Mr. To Hoi Pan (<i>note (ii)</i>)	45	2	47
Ms. Lee Kwai Fong (<i>note (iii)</i>)	342	13	355
	<u>1,330</u>	<u>46</u>	<u>1,376</u>
Year ended March 31, 2017			
<i>Directors</i>			
Mr. Li Wai Keung	1,090	18	1,108
Mr. To Hoi Pan (appointed on 26 January 2017) (<i>note (ii)</i>)	585	18	603
Ms. Lee Kwai Fong (appointed on 2 March 2017) (<i>note (iii)</i>)	376	16	392
	<u>2,051</u>	<u>52</u>	<u>2,103</u>
Period ended December 31, 2016 (Unaudited)			
<i>Directors</i>			
Mr. Li Wai Keung	725	14	739
Mr. To Hoi Pan (<i>note (ii)</i>)	450	14	464
Ms. Lee Kwai Fong (<i>note (iii)</i>)	260	12	272
	<u>1,435</u>	<u>40</u>	<u>1,475</u>
Period ended December 31, 2017			
<i>Directors</i>			
Mr. Li Wai Keung	1,185	14	1,199
Mr. To Hoi Pan (<i>note (ii)</i>)	439	14	453
Ms. Lee Kwai Fong (<i>note (iii)</i>)	375	12	387
	<u>1,999</u>	<u>40</u>	<u>2,039</u>

Notes:

- (i) During the Relevant Periods, there was no amount paid or payable by the Group to the directors or any of the five highest paid individuals as set out in note 9 below as an inducement to join or upon joining the Group or as compensation for loss of office. And, there was no arrangement under which a director has waived or agreed to waive any emolument during the Relevant Periods.
- (ii) Mr. To Hoi Pan is also the chief financial officer of the Group, his emoluments disclosed above included those for services rendered by him before appointment as the executive director. The basic salaries, allowances and benefits in kind, and retirement scheme contributions for services rendered by him before appointment as the executive director are \$450,000 and \$14,000 for the nine months ended 31 December 2016, \$45,000 and \$2,000 for the year ended 31 March 2016 and \$486,000 and \$15,000 for the year ended 31 March 2017 respectively.
- (iii) Ms. Lee Kwai Fong is also the general manager of the Group, her emoluments disclosed above included those for services rendered by her before appointment as the executive director. The basic salaries, allowances and benefits in kind, and retirement scheme contributions for services rendered by her before appointment as the executive director are \$260,000 and \$12,000 for the nine months ended 31 December 2016, \$342,000 and \$13,000 for the year ended 31 March 2016 and \$351,000 and \$14,000 for the year ended 31 March 2017 respectively.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two, three, three and three are directors whose emoluments are disclosed in note 8 for the years ended 31 March 2016 and 2017 and the nine months ended 31 December 2016 and 2017. The aggregate of the emoluments in respect of the other three, two, two and two individuals for years ended 31 March 2016 and 2017 and the nine months ended 31 December 2016 and 2017 respectively are as follows:

	Year ended 31 March		Nine months ended 31 December	
	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000
			(Unaudited)	
Salaries and other emoluments	1,090	768	609	555
Retirement scheme contributions	45	32	24	25
	<u>1,135</u>	<u>800</u>	<u>633</u>	<u>580</u>

The emoluments of the three, two, two and two individuals for years ended 31 March 2016 and 2017 and the nine months ended 31 December 2016 and 2017 with the highest emoluments are within the following bands:

	Year ended 31 March		Nine months ended 31 December	
	2016 Number of individual	2017 Number of individual	2016 Number of individual	2017 Number of individual
HK\$Nil – HK\$1,000,000	<u>3</u>	<u>2</u>	<u>2</u>	<u>2</u>

10 INVESTMENT PROPERTY AND OTHER PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings \$'000	Leasehold improvements \$'000	Office equipment \$'000	Motor vehicles \$'000	Moulds \$'000	Sub-total \$'000	Investment property \$'000	Total \$'000
Cost or valuation:								
At 1 April 2015	8,365	657	234	1,350	1,637	12,243	7,800	20,043
Additions	-	160	168	-	3,909	4,237	-	4,237
Loss on revaluation	-	-	-	-	-	-	(360)	(360)
At 31 March 2016	8,365	817	402	1,350	5,546	16,480	7,440	23,920
At 1 April 2016	8,365	817	402	1,350	5,546	16,480	7,440	23,920
Additions	5,423	48	49	-	2,559	8,079	-	8,079
Disposals	-	-	-	(363)	-	(363)	-	(363)
Gain on revaluation	-	-	-	-	-	-	1,360	1,360
At 31 March 2017	13,788	865	451	987	8,105	24,196	8,800	32,996
At 1 April 2017	13,788	865	451	987	8,105	24,196	8,800	32,996
Additions	-	124	97	-	3,770	3,991	-	3,991
Gain on revaluation	-	-	-	-	-	-	1,000	1,000
At 31 December 2017	13,788	989	548	987	11,875	28,187	9,800	37,987
Accumulated depreciation:								
At 1 April 2015	1,060	453	170	570	491	2,744	-	2,744
Charge for the year	177	119	29	311	2,064	2,700	-	2,700
At 31 March 2016	1,237	572	199	881	2,555	5,444	-	5,444
At 1 April 2016	1,237	572	199	881	2,555	5,444	-	5,444
Charge for the year	194	157	60	296	4,261	4,968	-	4,968
Written back on disposals	-	-	-	(363)	-	(363)	-	(363)
At 31 March 2017	1,431	729	259	814	6,816	10,049	-	10,049
At 1 April 2017	1,431	729	259	814	6,816	10,049	-	10,049
Charge for the period	214	88	51	173	1,812	2,338	-	2,338
At 31 December 2017	1,645	817	310	987	8,628	12,387	-	12,387
Net book value:								
At 31 March 2016	7,128	245	203	469	2,991	11,036	7,440	18,476
At 31 March 2017	12,357	136	192	173	1,289	14,147	8,800	22,947
At 31 December 2017	12,143	172	238	-	3,247	15,800	9,800	25,600

Note: At 31 March 2016 and 2017 and 31 December 2017, the Group's investment property and leasehold land and building with an aggregate carrying value of \$14,568,000, \$15,752,000 and \$16,619,000 were mortgaged to secure banking facilities granted to the Group.

(a) Assets held under finance leases

The Group leases motor vehicles under finance leases expired during the year ended 31 March 2017.

None of the leases includes contingent rentals.

(b) Fair value measurement of property*(i) Fair value hierarchy*

The fair value measurement of the Group's investment property at the end of the reporting period on a recurring basis is categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

The investment property was revalued at 31 March 2016 by an independent firm of surveyors, AA Property Services Limited. The investment property was revalued at 31 March 2017 and 31 December 2017 by an independent firm of surveyors, BMI Appraisals Limited. They have staff with recognised professional qualifications and relevant experience in the location and category of investment properties being revalued. The Company's management has discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at the end of the reporting period.

At 31 March 2016 and 2017 and 31 December 2017, the Group's investment property falls into Level 3 of the fair value hierarchy as described above.

(ii) Information about Level 3 fair value measurements

Location of properties	Valuation techniques	Unobservable input	Range
Hong Kong – Commercial property	Direct comparison approach	(Discount)/premium on quality of the buildings	31 December 2017: (4.9%) to 9.0% 31 March 2017: (3.9%) to 7.8% 31 March 2016: (6.6%) to (2.4%)

The fair values of investment property located in Hong Kong are determined by using direct comparison approach with reference to the market price of comparable properties and adjusted for building quality and timing of the reference transactions. Higher premium for investment property will result in a higher fair value measurement.

11 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	At 31 March		At 31 December
	2016	2017	2017
	\$'000	\$'000	\$'000
Merchandise held for sale	1,465	2,937	1,800
	<u>1,465</u>	<u>2,937</u>	<u>1,800</u>

(b) The analysis of the amount of inventories recognised as an expense and included in the consolidated statement of profit or loss is as follows:

	At 31 March		At 31 December
	2016	2017	2017
	\$'000	\$'000	\$'000
Carrying amount of inventories sold	90,942	96,766	66,666
Write down of inventories	—	—	326
	<u>90,942</u>	<u>96,766</u>	<u>66,992</u>

12 TRADE AND OTHER RECEIVABLES

	At 31 March		At 31 December
	2016	2017	2017
	\$'000	\$'000	\$'000
Trade receivables	10,801	13,357	14,953
Other receivables	2,127	2,885	3,607
Deposits and prepayments	5,809	10,540	17,058
	<u>18,737</u>	<u>26,782</u>	<u>35,618</u>
Less: Amount included under "non-current assets"	(457)	—	—
	<u>18,280</u>	<u>26,782</u>	<u>35,618</u>

Included in prepayments, deposits and other receivables are amounts of \$300,000, \$136,000 and \$259,000 at 31 March 2016 and 31 March 2017 and 31 December 2017 respectively which are expected to be recovered after more than one year.

Apart from the above, all of the prepayments, deposits and other receivables are expected to be recovered or recognised as expenses within one year.

(a) Ageing analysis

Included in debtors, deposits and prepayments are trade and other debtors (net of allowance for doubtful debts) with the following ageing analysis, based on the invoice date, as of the end of the reporting period:

	At 31 March		At
	2016	2017	31 December
	\$'000	\$'000	2017
			\$'000
Less than 30 days	7,208	10,341	9,374
31 to 60 days	213	160	3,793
61 to 90 days	703	985	406
Over 91 days but within one year	2,677	1,871	1,380
	<u>10,801</u>	<u>13,357</u>	<u>14,953</u>

(b) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	At 31 March		At
	2016	2017	31 December
	\$'000	\$'000	2017
			\$'000
Neither past due nor impaired	6,782	10,163	11,266
Less than 30 days	676	172	1,903
31 to 60 days	932	1,009	471
61 to 90 days	1,322	282	62
Over 91 days but within one year	1,089	1,731	1,251
	<u>4,019</u>	<u>3,194</u>	<u>3,687</u>
	<u>10,801</u>	<u>13,357</u>	<u>14,953</u>

Trade debtors that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade debtors that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances. Further details on the Group's credit policy are set out in note 20(a).

13 CASH AND CASH EQUIVALENTS**(a) Cash and cash equivalents comprise:**

	At 31 March		At
	2016	2017	31 December
	\$'000	\$'000	2017
			\$'000
Cash at bank and on hand	<u>52,027</u>	<u>32,282</u>	<u>25,704</u>

(b) Reconciliation of profit before taxation to cash generated from/(used in) operations:

	Note	Year ended 31 March		Nine months ended 31 December	
		2016 \$'000	2017 \$'000	2016 \$'000 (Unaudited)	2017 \$'000
Profit before taxation		22,097	15,739	15,299	14,133
Adjustments for:					
Depreciation	6(c)	2,700	4,968	3,968	2,338
Interest income from bank deposits	5	(190)	(53)	(15)	(128)
Interest expenses on borrowings	6(a)	74	113	82	81
Valuation loss/(gain) on investment property		360	(1,360)	(590)	(1,000)
Gain on disposal of property, plant and equipment	5	-	(70)	(70)	-
		<u>25,041</u>	<u>19,337</u>	<u>18,674</u>	<u>15,424</u>
Changes in working capital:					
(Increase)/decrease in inventories		(1,330)	(1,472)	(2,617)	1,137
Increase in trade and other receivables		(4,882)	(8,045)	(8,818)	(8,668)
Increase/(decrease) in trade and other payables		<u>11,420</u>	<u>(8,956)</u>	<u>(11,773)</u>	<u>482</u>
Cash generated from/(used in) operations		<u><u>30,249</u></u>	<u><u>864</u></u>	<u><u>(4,534)</u></u>	<u><u>8,375</u></u>

(c) Reconciliation of liabilities arising from financing activities

	Bank loans \$'000	Obligations under finance lease \$'000	Total \$'000
At 1 April 2015	7,211	312	7,523
Changes from financing cash flows:			
Repayment of bank loans	(250)	-	(250)
Capital element of finance lease rentals paid	-	(186)	(186)
Interest element of finance lease rentals paid	-	(14)	(14)
Interest paid	<u>(60)</u>	<u>-</u>	<u>(60)</u>
Total changes from financing cash flows	(310)	(200)	(510)
Other changes:			
Finance charges on obligations under finance leases (note 6(a))	-	14	14
Interest expenses on borrowings (note 6(a))	<u>60</u>	<u>-</u>	<u>60</u>
Total other changes	<u>60</u>	<u>14</u>	<u>74</u>
At 31 March 2016	<u><u>6,961</u></u>	<u><u>126</u></u>	<u><u>7,087</u></u>

	Bank loans	Obligations under finance lease	Total
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
At 1 April 2016	6,961	126	7,087
Changes from financing cash flows:			
Repayment of bank loans	(230)	–	(230)
Capital element of finance lease rentals paid	–	(126)	(126)
Interest element of finance lease rentals paid	–	(2)	(2)
Interest paid	(111)	–	(111)
	<hr/>	<hr/>	<hr/>
Total changes from financing cash flows	(341)	(128)	(469)
Other changes:			
Finance charges on obligations under finance leases (<i>note 6(a)</i>)	–	2	2
Interest expenses on borrowings (<i>note 6(a)</i>)	111	–	111
	<hr/>	<hr/>	<hr/>
Total other changes	111	2	113
	<hr/>	<hr/>	<hr/>
At 31 March 2017	6,731	–	6,731
	<hr/>	<hr/>	<hr/>
At 1 April 2016	6,961	126	7,087
Changes from financing cash flows:			
Repayment of bank loans	(174)	–	(174)
Capital element of finance lease rentals paid	–	(103)	(103)
Interest element of finance lease rentals paid	–	(2)	(2)
Interest paid	(80)	–	(80)
	<hr/>	<hr/>	<hr/>
Total changes from financing cash flows	(254)	(105)	(359)
Other changes:			
Finance charges on obligations under finance leases (<i>note 6(a)</i>)	–	2	2
Interest expenses on borrowings (<i>note 6(a)</i>)	80	–	80
	<hr/>	<hr/>	<hr/>
Total other changes	80	2	82
	<hr/>	<hr/>	<hr/>
At 31 December 2016	6,787	23	6,810
	<hr/>	<hr/>	<hr/>

	Bank loans \$'000	Obligations under finance lease \$'000	Total \$'000
At 1 April 2017	6,731	–	6,731
Changes from financing cash flows:			
Repayment of bank loans	(96)	–	(96)
Interest paid	(81)	–	(81)
Total changes from financing cash flows	(177)	–	(177)
Other changes:			
Interest expenses on borrowings (note 6(a))	81	–	81
Total other changes	81	–	81
At 31 December 2017	<u>6,635</u>	<u>–</u>	<u>6,635</u>

14 AMOUNT DUE FROM/TO A DIRECTOR AND SHAREHOLDERS

Amount due from a director of the Group is as follows:

Name of borrower	Mr. Li Wai Keung
Position	Director
Lender	The Company
Terms of the loan	
– Duration and repayment terms	Repayable on demand
– Interest rate	Nil
– Security	None
Balance of the loan	
– 31 December 2017	\$Nil
– 31 March 2017	\$2,678,000
– 31 March 2016	\$3,532,000
– 1 April 2015	\$1,357,000
Maximum balance outstanding	
– During the nine months ended 31 December 2017	\$6,574,000
– During the year ended 31 March 2017	\$11,569,000
– During the year ended 31 March 2016	\$5,607,000
Provision at 31 December 2017	\$Nil
Provision at 31 March 2017	\$Nil
Provision at 31 March 2016	\$Nil

The above loan was in the form of current accounts. The amount due from a director and shareholders are non-trade in nature, unsecured, interest-free and expected to be settled within one year.

The amount due to a director as at 31 December 2017 will be settled before the listing of the Group on GEM of The Stock Exchange of Hong Kong Limited.

15 TRADE AND OTHER PAYABLES

	At 31 March		At
	2016	2017	31 December
	\$'000	\$'000	2017
			\$'000
Trade payables	22,290	5,815	4,521
Deposit received	5,684	2,557	2,977
Other payables and accrued expenses	1,677	10,735	11,102
	<u>29,651</u>	<u>19,107</u>	<u>18,600</u>

Ageing analysis

As of the end of the reporting period, the ageing analysis of trade payables, based on the invoice date is as follows:

	At 31 March		At
	2016	2017	31 December
	\$'000	\$'000	2017
			\$'000
Less than 30 days	8,110	1,369	3,324
31 to 60 days	113	260	329
61 to 90 days	380	56	166
Over 91 days but within one year	13,687	4,130	702
	<u>22,290</u>	<u>5,815</u>	<u>4,521</u>

16 BANK LOANS

At 31 March 2016 and 2017 and 31 December 2017, the bank loans were repayable as follows:

	At 31 March		At
	2016	2017	31 December
	\$'000	\$'000	2017
			\$'000
Portion of mortgage loan from bank repayable within 1 year	233	230	225
Portion of mortgage loan from bank due for repayment after 1 year which contains a repayable on demand clause			
– after 1 year but within 2 years	236	234	230
– after 2 years but within 5 years	729	726	716
– after 5 years	5,763	5,541	5,464
	<u>6,728</u>	<u>6,501</u>	<u>6,410</u>
Total bank loans	<u>6,961</u>	<u>6,731</u>	<u>6,635</u>

The bank loans are secured by mortgages over investment property and leasehold land and buildings with an aggregate carrying value of \$14,568,000, \$15,752,000 and \$16,619,000 at 31 March 2016 and 2017 and 31 December 2017 respectively with the director, Mr. Li Wai Keung's personal guarantee. The personal guarantee given by the director will be released before the listing of the Group on GEM of The Stock Exchange of Hong Kong Limited.

17 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(a) Current taxation in the consolidated statements of financial position represents:

	At 31 March		At
	2016	2017	31 December
	\$'000	\$'000	2017
			\$'000
Provision for Hong Kong Profits Tax for the year/period	3,690	4,912	2,692
Provisional Profits Tax paid	(338)	(3,478)	(5,028)
	<u>3,352</u>	<u>1,434</u>	<u>(2,336)</u>
Balance of Profits Tax in respect of prior years	790	-	-
	<u>4,142</u>	<u>1,434</u>	<u>(2,336)</u>
Representing:			
Current tax recoverable	-	-	(2,383)
Current tax payable	4,142	1,434	47
	<u>4,142</u>	<u>1,434</u>	<u>47</u>

(b) Deferred tax liabilities/(assets) recognised:

The component of deferred tax liabilities/(assets) recognised in the Group's consolidated statements of financial position and the movements during the Relevant Periods are as follows:

	Depreciation allowances in excess of related depreciation \$'000	Future benefit of tax losses \$'000	Total \$'000
Deferred tax arising from:			
At 1 April 2015	787	–	787
Charged to consolidated statement of profit or loss and other comprehensive income	<u>169</u>	<u>(49)</u>	<u>120</u>
At 31 March 2016 and 1 April 2016	956	(49)	907
Credited to consolidated statement of profit or loss and other comprehensive income	<u>(324)</u>	<u>49</u>	<u>(275)</u>
At 31 March 2017 and 1 April 2017	632	–	632
Charged to consolidated statement of profit or loss and other comprehensive income	<u>163</u>	<u>–</u>	<u>163</u>
At 31 December 2017	<u><u>795</u></u>	<u><u>–</u></u>	<u><u>795</u></u>
			\$'000
Representing:			
At 31 March 2016			
Deferred tax assets			(56)
Deferred tax liabilities			<u>963</u>
			<u><u>907</u></u>
At 31 March 2017			
Deferred tax assets			(21)
Deferred tax liabilities			<u>653</u>
			<u><u>632</u></u>
At 31 December 2017			
Deferred tax assets			(23)
Deferred tax liabilities			<u>818</u>
			<u><u>795</u></u>

18 CAPITAL AND RESERVES

(a) Components of the capital and reserves

The opening and closing balances of each component of the Group's equity and a reconciliation between these amounts are set out in the consolidated statement of changes in equity.

(b) Issued share capital

The Company was incorporated on 16 November 2016 with an authorised share capital of \$380,000 divided into 38,000,000 shares of \$0.01 each. On the same date, 10,000 shares of \$0.01 each were allotted and issued at par.

Upon the completion of the Reorganisation on 7 March 2017, the Company became the holding company of the Group. On the same date, 10,000 shares of \$0.01 each were further allotted and issued as at par.

Since the Reorganisation was not completed as at 31 March 2016, the share capital in the consolidated statements of financial position as at 31 March 2016 represented an aggregate amount of the paid-in capital of the companies comprising the Group.

(c) Land and buildings revaluation reserve

During the year ended 31 March 2015, a property with carrying amount of \$6,558,000 which was leasehold land and buildings held for own use was transferred to investment property as the property was leased out. The difference between its fair value and carrying amount at the date of transfer of \$1,242,000 was credited to land and buildings revaluation reserve and was included in "revaluation gain recognised upon transfer from property held for own use to investment property" in the Group's other comprehensive income.

(d) Merger reserve

The merger reserve represents the aggregate amount of the excess of the nominal value of shares of Amuse International Investment Ltd. over the nominal value of shares of the Company exchanged, and the excess of the nominal value of shares of Amuse International Investment Ltd. over the nominal values of shares of Bestone Creative Development Limited, Sentinel International Co., Limited, Lai Ga Toys Co., Limited, D4 Toys Co., Limited and Moon One Toys Co., Limited exchanged as part of the Reorganisation.

(e) Dividends

Dividends declared during the year/period ended

	31 March		31 December
	2016	2017	2017
	\$'000	\$'000	\$'000
Dividends declared	10,000	4,000	6,000

Prior to the Reorganisation, Sentinel International Co., Limited, Lai Ga Toys Co., Limited and Bestone Creative Development Limited had declared interim dividends in the amounts of \$5,000,000, \$3,000,000 and \$2,000,000 respectively to its then shareholder during the year ended 31 March 2016. The amounts were settled by cash.

On 31 December 2016, Sentinel International Co., Limited, D4 Toys Co., Limited and Lai Ga Toys Co., Limited had declared interim dividends in the amounts of \$2,000,000, \$1,000,000 and \$1,000,000 respectively to its then shareholder. The amounts were settled through amount due from a director.

On 11 July 2017, the Company declared interim dividends of \$6,000,000, of which \$900,000 has been settled through cash and \$5,100,000 was settled through amount due from a director.

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders, by pricing services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions affecting the Group.

During the Relevant Periods, the Group's strategy in monitoring its capital structure, which was unchanged, was to maintain a sufficient cash level to meet its liquidity requirements.

The Group was not subject to any externally imposed capital requirements during the years ended 31 March 2016 and 2017 and the nine months ended 31 December 2017.

(g) Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the Relevant Periods. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The fully diluted earnings per share for the Relevant Periods is the same as the basic earnings per share as there is no dilutive potential ordinary share during the Relevant Periods. In determining the weighted average number of shares in issue during the Relevant Periods, 20,000 shares were deemed to have been in issued since 1 April 2015.

	As 31 March		At 31 December	
	2016	2017	2016	2017
	\$'000	\$'000	\$'000	\$'000
Profit attributable to the owners of the Company (\$'000)	18,259	11,272	12,001	11,241
Weighted average number of ordinary shares in issue (in thousands)	20	20	20	20
Basic and diluted earnings per share (in \$)	913	564	600	562

19 COMMITMENTS UNDER OPERATING LEASES

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 March		At
	2016	2017	31 December 2017
	\$'000	\$'000	\$'000
Within 1 year	1,185	856	857
After 1 year but within 5 years	312	544	287
	1,497	1,400	1,144

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to two years. None of these leases includes contingent rentals.

20 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Group's major financial instruments include receivables, deposits, cash and cash equivalents, trade and other payables and bank loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how the Group mitigates risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk

Principal financial assets consist of receivables, deposits and bank balances. The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position.

Trade receivables may be affected by the unfavourable economic conditions and the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Trade receivables are due within 0 to 30 days from the date of billing. Customers are assessed and rated based on their credit quality, taking into account of their financial position, repayment history and other factors. The Group has policies in place to ensure that sales are made to customers with satisfactory credit history. It performs periodic credit reviews of its customers. Other receivables are assessed by reference to the historical information on the default rates of the counter parties. Management does not expect any significant losses from non-performance by those relevant parties.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. Within the business segment, 41%, 22% and 27% of the total trade and other receivables was due from the Group's largest customer as at 31 March 2016 and 2017 and 31 December 2017 respectively. 49%, 41% and 37% of the total trade and other receivables was due from the Group's five largest customers as at 31 March 2016 and 2017 and 31 December 2017 respectively.

Bank balances are limited to financial institutions with high credit quality. The Group controls its credit risk to non-performance by its counterparties through monitoring their credit rating and setting approved counterparty credit limits that are regularly reviewed.

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The Group's liquidity position and compliance with loan covenants are monitored closely by the management of the Group. The following table details the Group's contractual maturity for its financial liabilities at the end of the Relevant Periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Contractual undiscounted cash flow				Total \$'000	Carrying amount at 31 March \$'000
	Within one year or on demand \$'000	More than one year but less than two years \$'000	More than two years but less than five years \$'000	More than five years \$'000		
At 31 March 2016						
Bank loans subject to repayment on demand clauses: scheduled repayments	335	335	1,006	6,723	8,399	6,961
Trade payables	22,290	-	-	-	22,290	22,290
Other payables and accrued expenses	1,677	-	-	-	1,677	1,677
Obligations under finance leases	126	-	-	-	126	126
	<u>24,428</u>	<u>335</u>	<u>1,006</u>	<u>6,723</u>	<u>32,492</u>	<u>31,054</u>
Adjustments to disclose cash flows on term loans based on lender's right to demand repayment	<u>6,626</u>	<u>(335)</u>	<u>(1,006)</u>	<u>(6,723)</u>	<u>(1,438)</u>	
	<u>31,054</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,054</u>	
At 31 March 2017						
Bank loans subject to repayment on demand clauses: scheduled repayments	344	344	1,031	6,561	8,280	6,731
Trade payables	5,815	-	-	-	5,815	5,815
Other payables and accrued expenses	10,735	-	-	-	10,735	10,735
	<u>16,894</u>	<u>344</u>	<u>1,031</u>	<u>6,561</u>	<u>24,830</u>	<u>23,281</u>
Adjustments to disclose cash flows on term loans based on lender's right to demand repayment	<u>6,387</u>	<u>(344)</u>	<u>(1,031)</u>	<u>(6,561)</u>	<u>(1,549)</u>	
	<u>23,281</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,281</u>	
At 31 December 2017						
Bank loans subject to repayment on demand clauses: scheduled repayments	352	352	1,055	6,516	8,275	6,635
Trade payables	4,521	-	-	-	4,521	4,521
Other payables and accrued expenses	11,102	-	-	-	11,102	11,102
	<u>15,975</u>	<u>352</u>	<u>1,055</u>	<u>6,516</u>	<u>23,898</u>	<u>22,258</u>
Adjustments to disclose cash flows on term loans based on lender's right to demand repayment	<u>6,283</u>	<u>(352)</u>	<u>(1,055)</u>	<u>(6,516)</u>	<u>(1,640)</u>	
	<u>22,258</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,258</u>	

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank loans. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group monitors the level of its variable rate borrowings and manages the contractual terms of the interest-bearing financial liabilities. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The Group

	At 31 March		2017		At 31 December	
	2016	2017	2017	2017	2017	2017
	Effective interest rate	Amount \$'000	Effective interest rate	Amount \$'000	Effective interest rate	Amount \$'000
Variable rate borrowings:						
Bank loans	0.84%	<u>6,961</u>	1.62%	<u>6,731</u>	1.88%	<u>6,635</u>

(ii) Sensitivity analysis

At 31 March 2016 and 2017 and 31 December 2017, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after taxation and retained profits by approximately \$29,000, \$28,000 and \$28,000 respectively. Other components of consolidated equity would not be affected in response to a general increase/decrease in interest rates.

The sensitivity analysis above indicates the annualised impact on the Group's interest expense that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the secured bank loans which exposes the Group's to cash flow interest rate risk at that date. The analysis is performed on the same basis throughout the Relevant Periods.

(d) Currency risk

The Group's functional currency and presentation currency are HKD.

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars ("USD"), Euros ("EUR"), Japanese Yen ("JPY") and Renminbi ("RMB").

As the HKD is pegged to the USD, the Group does not expect any significant movements in the USD/HKD exchange rate.

(i) Exposure to currency risk

The following table details the Group's and the Company's exposure at the end of each of the Relevant Periods to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of entity to which they relate. For presentation purposes, the amounts of the exposure are shown in HKD, translated using spot rate at the year/period end date.

	At 31 March						At 31 December		
	2016			2017			2017		
	EUR \$'000	JPY \$'000	RMB \$'000	EUR \$'000	JPY \$'000	RMB \$'000	EUR \$'000	JPY \$'000	RMB \$'000
Trade and other receivables	-	-	655	-	1,901	686	-	1,194	550
Deposit and prepayments	12	-	-	-	-	-	-	-	-
Cash and cash equivalents	659	4,959	5,683	653	3,565	6,141	827	4,412	7,423
Trade and other payables	(209)	(12,252)	-	-	(3,166)	(40)	-	(2,819)	(45)
Net exposure arising from recognised assets and liabilities	462	(7,293)	6,338	653	2,300	6,787	827	2,787	7,928

(ii) *Sensitivity analysis*

The following table indicates the instantaneous change in the Group's and the Company's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group and the Company have significant exposure at the end of each of the Relevant Periods had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the HKD and the USD would be materially unaffected by any changes in movement in value of the USD against other currencies.

The Group

	At 31 March				At 31 December	
	2016		2017		2017	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits \$'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits \$'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits \$'000
EUR	10% (10)%	49 (49)	10% (10)%	65 (65)	10% (10)%	83 (83)
JPY	10% (10)%	(527) 527	10% (10)%	251 (251)	10% (10)%	306 (306)
RMB	10% (10)%	623 (623)	10% (10)%	668 (668)	10% (10)%	785 (785)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated to the HKD at the exchange rate ruling at the end of each of the Relevant Periods for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of each of the Relevant Periods, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis is performed on the same basis throughout the Relevant Periods.

21 MATERIAL RELATED PARTY TRANSACTIONS

Balance with a director is disclosed in the consolidated statement of financial position and note 14.

The outstanding balances with the director is unsecured, interest-free and expected to be settled within one year. No allowance for doubtful debts has been made in respect of the amount due from a director as the balance is neither past due nor impaired.

22 IMMEDIATE PARENT AND ULTIMATE CONTROLLING PARTY

At 31 December 2017, the directors consider the Company's immediate parent and ultimate controlling party to be Infinite Force Holdings Limited and Mr. Li Wai Keung respectively.

23 FINANCIAL INFORMATION OF THE COMPANY

The Company was incorporated in the Cayman Islands on 16 November 2016. The issued share capital as at the date of incorporation was \$100. On the same date, 10,000 share of \$0.01 each was allotted and issued at par. On 7 March 2017, 10,000 shares of \$0.01 each were further allotted and issued at par. Except for the Reorganisation, the Company has not carried on any business since the date of incorporation.

24 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS

Up to the date of issue of the Financial Information, the HKICPA has issued a number of amendments and new standards which are not yet effective for the Relevant Periods and which have not been adopted in the Financial Information. These include the following:

	Effective for accounting periods beginning on or after
<i>Amendments to HKFRSs, Annual improvements 2014-2016 cycle</i>	1 January 2018
<i>HK(IFRIC)–Int 22 Foreign currency translation and advance consideration</i>	1 January 2018
<i>Amendments to HKFRS 4 Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts (amendments)</i>	1 January 2018
<i>Amendments to HKAS 40, Investment properties</i>	1 January 2018
<i>HKFRS 9, Financial instruments</i>	1 January 2018
<i>HKFRS 15, Revenue from contracts with customers</i>	1 January 2018
<i>Amendments to HKFRS 2, Share-based payment: Classification and measurement of share-based payment transactions</i>	1 January 2018
<i>HKFRS 16, Leases</i>	1 January 2019
<i>HK(IFRIC) 23 Uncertainty of income tax treatments</i>	1 January 2019
<i>HKFRS 17, Insurance contracts</i>	1 January 2021
<i>Amendments to HKFRS 10 and HKAS 28, Sale or contribution of assets between an investor and its associate or joint venture</i>	Postponed indefinitely

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

HKFRS 9, *Financial instruments*

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against opening balance of equity at 1 April 2018.

Expected impacts of the new requirements on the Group's financial statements are as follows:

Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI).

Based on the preliminary assessment, the Group expects that its financial assets currently measured at amortised cost will continue with their respective classification and measurements upon the adoption of HKFRS 9. The group currently does not have any financial assets designated at FVTPL or FVTOCI.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore considers the initial application of HKFRS 9 will not have a significant impact on the Group's results of operations and financial position.

Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. Based on the preliminary assessment, the Group considers that the adoption of the new impairment requirements will not have a significant impact on the Group's results of operation and financial position.

HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services. The Group is currently assessing the impacts of adopting HKFRS 15 on its financial statements. Based on the preliminary assessment, the Group has identified the following areas which are likely to be affected:

(a) *Timing of revenue recognition*

Currently, revenue arising from the sale of goods is generally recognised when the risks and rewards of ownership have been passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

- (i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
- (ii) When the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced;
- (iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

As a result of this change from the risk-and-reward approach to the contract-by-contract transfer-of-control approach, it is possible that once the Group adopts HKFRS 15 some of the Group's contracts that are currently recognised at a point in time may meet the HKFRS 15 criteria for revenue recognition over time. This will depend on the terms of the sales contract and the enforceability of any specific performance clauses in that contract, which may vary depending on the jurisdiction in which the contract would be enforced.

Based on the preliminary assessment, the Group considers that the initial application of HKFRS 15 will not have a significant impact on the Group's results of operation and financial position.

(b) Principal versus agent considerations

Currently, the principal versus agent determination is based on risk-and-reward approach, whereas revenue is recognised on a gross basis as a principal in the transaction when the entity has exposure to the significant risks and rewards associated with the sales of goods or the rendering of services. If an entity is determined as an agent in a transaction, revenue of the transaction is recognised on a net basis.

Under HKFRS 15, revenue recognition is subject to transfer of control as mentioned above. An entity is considered as a principal when the entity has control over specified goods or services in advance of transferring them to the customers.

As a result of this change from the risk-and-reward approach to the contract-by-contract transfer-of-control approach, it is possible that the principal versus agent determination for some of the Group's contracts may change. The Group has assessed that the new revenue standard will not have significant impact on the Group's results of operation and financial position.

HKFRS 16, Leases

As disclosed in principal accounting policies note 2(f), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties which is currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 19, at 31 March 2016, 31 March 2017 and 31 December 2017, the Group's future minimum lease payments under non-cancellable operating leases amount to \$1,497,000, \$1,400,000 and \$1,144,000 for properties, the majority of which is payable either between 1 and 2 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting. So far the directors of the Group do not expect the adoption of HKFRS 16 would result in significant impact on the results and the net assets of the Group.

SUBSEQUENT EVENTS

The following significant transactions took place subsequent to 31 December 2017:

Pursuant to the resolutions in writing of our Shareholders passed on 11 May 2018, subject to the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorised to allot and issue a total of 749,980,000 Shares to the holders of shares on the register of members of our Company as of 11 May 2018 in proportion to their respective shareholdings, credited as fully paid at par by way of capitalisation of the sum of HK\$7,499,800 standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the Shares in issue.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries comprising the Group in respect of any period subsequent to 31 December 2017.

The information set out below does not form part of the Accountants' Report received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, as set out in Appendix I, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" of this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

A. UNAUDITED PROFORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets prepared in accordance with Rule 7.31 of the GEM Listing Rules is set out to illustrate effect of the Share Offer on our net tangible assets as at 31 December 2017 as if it had taken place on 31 December 2017. The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets as at 31 December 2017 or any future date following the completion of Share Offer. It is prepared based on our net assets as at 31 December 2017 as set out in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below.

	Consolidated net tangible assets of our Group as at 31 December 2017 \$'000 (Note 1)	Estimated net proceeds from the Share Offer \$'000 (Note 2)	Unaudited pro forma adjusted consolidated net tangible assets \$'000	Unaudited pro forma adjusted consolidated net tangible assets per Share \$ (Note 3)
Based on an Offer Price of \$0.25 per Share	64,963	56,201	121,164	0.12
Based on an Offer Price of \$0.35 per Share	64,963	80,326	145,289	0.15

Notes:

- The consolidated net tangible assets attributable to our Group as at 31 December 2017 is extracted from the Accountants' Report as set out in Appendix I to this prospectus, which is based on the consolidated net assets attributable to our Group of \$64,963,000 as at 31 December 2017.
- The estimated net proceeds from the Share Offer are based on 250,000,000 shares to be issued at the minimum and maximum indicative Offer Price of \$0.25 and \$0.35 per Share, respectively, after deduction of the underwriting fees and other related expenses payable by our Group subsequent to 31 December 2017, and excluding any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates granted to the Directors to allot and issue or repurchase Shares.

3. The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived on the basis of 1,000,000,000 shares in issue, assuming that 250,000,000 shares to be issued pursuant to the Share Offer had been completed on 31 December 2017, and excluding any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates granted to the Directors to allot and issue or repurchase Shares.
4. No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of our Group as at 31 December 2017 to reflect any trading results or other transactions of our Group entered into subsequent to 31 December 2017.

B. UNAUDITED PRO FORMA ESTIMATE BASIC EARNINGS PER SHARE

The following unaudited pro forma estimate basic earnings per share for the year ended 31 March 2018 has been prepared in accordance with paragraph 7.31 of the GEM Listing Rules on the basis of the notes set out below for the purpose of illustrating the effect of the Share Offer by the Company as if it had taken place on 1 April 2017. The unaudited pro forma estimate basic earnings per share had been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial results of the Group for the year ended 31 March 2018 or for any future period.

Estimate consolidated profit attributable to equity shareholders of the Company for the year ended 31 March 2018 ⁽¹⁾	not less than \$15,000,000
Unaudited pro forma estimate basic earnings per share ⁽²⁾	not less than \$0.015

Notes:

- (1) The bases and assumptions on which the above profit estimate has been prepared are set out in Appendix III to this prospectus. The Directors have prepared the estimate consolidated profit attributable to equity shareholders of the Company for the year ended 31 March 2018 based on the consolidated results for the nine months ended 31 December 2017 as reported in the Accountants' Report set forth in Appendix I to this prospectus and the unaudited consolidated results of the Company based on management accounts for the three months ended 31 March 2018.
- (2) The calculation of the unaudited pro forma estimate basic earnings per share is based on the estimate consolidated profit attributable to equity shareholders of the Company for the year ended 31 March 2018, assuming that a total of 1,000,000,000 shares had been in issue throughout the year. The calculation of the unaudited pro forma estimate basic earnings per share does not take into account any shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates granted to the Directors to allot and issue or repurchase Shares.

C. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this prospectus.

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION****TO THE DIRECTORS OF AMUSE GROUP HOLDING LIMITED**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Amuse Group Holding Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets as at 31 December 2017 and the unaudited pro forma estimated basic earnings per share for the year ended 31 March 2018 and related notes as set out in Part A and B of Appendix II to the prospectus dated 18 May 2018 (the "**Prospectus**") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A and B of Appendix II to the Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed offering of the ordinary shares of the Company (the "**Share Offer**") on the Group's financial position as at 31 December 2017 and the estimated basic earnings per share of the Company for the year ended 31 March 2018 as if the Share Offer had taken place at 31 December 2017 and 1 April 2017, respectively. As part of this process, information about the Group's financial position as at 31 December 2017 has been extracted by the Directors from the Group's historical financial information included in the Accountants' Report as set out in Appendix I to the Prospectus. Information about the Group's estimate of the consolidated profit attributable to the equity shareholders of the Company for the year ended 31 March 2018 (the "**Profit Estimate**") has been extracted by the Directors from the section headed "Financial Information" in the Prospectus on which a letter from us has been published as set out in Appendix III to the Prospectus.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "**GEM Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements (“**HKSAE**”) 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 7.31 of the GEM Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical or estimated financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of events or transactions as at 31 December 2017 or 1 April 2017 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

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

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

Opinion

In our opinion:

- a) the pro forma financial information has been properly compiled on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 7.31(1) of the GEM Rules.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
18 May 2018

The estimate of our consolidated profit attributable to equity shareholders of the Company for the year ended 31 March 2018 is set out in the section headed “Financial Information — Profit estimate for the year ended 31 March 2018”.

BASES

Our Directors have prepared the estimate of the profit of our Group for the year ended 31 March 2018 (the “**Profit Estimate**”) on the basis of the audited consolidated results of our Group for the nine months ended 31 December 2017 and unaudited consolidated results of the Group for the remaining three months ended 31 March 2018. The Profit Estimate has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by our Group as set forth in note 2 in the Appendix I to this prospectus. In the absence of unforeseen circumstances, our Directors estimate that the consolidated profit attributable to owners of the Company for the year ended 31 March 2018 will be no less than HK\$15.0 million.

(A) LETTER FROM THE REPORTING ACCOUNTANTS ON THE PROFIT ESTIMATE

The following is the text of the letter received by the Directors from our reporting accountants, KPMG, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this prospectus in connection with the profit estimate for the year ended 31 March 2018.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

18 May 2018

**The Directors
Amuse Group Holding Limited**

Ample Capital Limited

Dear Sirs,

Amuse Group Holding Limited (the "Company")

Profit Estimate for Year Ended 31 March 2018

We refer to the estimate of the consolidated profit attributable to equity holders of the Company for the year ended 31 March 2018 (the "**Profit Estimate**") set forth in the section headed "Financial Information" in the prospectus of the Company dated 18 May 2018 (the "**Prospectus**").

Directors' Responsibilities

The Profit Estimate has been prepared by the directors of the Company based on the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the nine months ended 31 December 2017 and the unaudited consolidated results based on the management accounts of the Group for the three months ended 31 March 2018.

The Company's directors are solely responsible for the Profit Estimate.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion on the accounting policies and calculations of the Profit Estimate based on our procedures. We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 “Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness” and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company’s directors have properly compiled the Profit Estimate in accordance with the bases adopted by the directors and as to whether the Profit Estimate is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases adopted by the directors as set out in Appendix III of the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants’ report dated 18 May 2018, the text of which is set out in Appendix I of the Prospectus.

Yours faithfully,

KPMG

Certified Public Accountants

Hong Kong

(B) LETTER FROM THE SPONSOR**AmCap***Ample Capital Limited*

豐盛融資有限公司

Unit A, 14th Floor, Two Chinachem Plaza
135 Des Voeux Road Central, Hong Kong

18 May 2018

The Directors
Amuse Group Holding Limited

Dear Sirs,

We refer to the estimate of consolidated profit attributable to equity shareholders of Amuse Group Holding Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 March 2018 (the “**Profit Estimate**”), for which the Directors of the Company (the “**Directors**”) are solely responsible, as set out in the paragraph headed “Financial Information — Profit Estimate” in the prospectus of the Company dated 18 May 2018 (the “**Prospectus**”).

The Profit Estimate has been prepared by the Directors based on the audited consolidated results of the Group for the nine months ended 31 December 2017 and the unaudited consolidated results based on the management accounts of the Group for the three months ended 31 March 2018.

We have discussed with the Directors the bases and assumptions made by the Directors as set out in Appendix III to the Prospectus, upon which the Profit Estimate has been made. We have also considered and relied upon the letter dated 18 May 2018 addressed to the Directors and ourselves from the reporting accountants, KPMG, regarding the accounting policies and calculations upon which the Profit Estimate has been made.

On the basis of the information comprising the Profit Estimate and on the basis of the accounting policies and calculations adopted by the Directors and reviewed by KPMG, we are of the opinion that the Profit Estimate, for which the Directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
Ample Capital Limited
H. W. Tang
President

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from BMI Appraisals Limited, an independent valuer, in connection with its valuations as at 31 March 2018 of the real properties located in Hong Kong.

BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

33rd Floor, Shui On Centre, Nos. 6-8 Harbour Road, Wanchai, Hong Kong

香港灣仔港灣道6-8號瑞安中心33樓

Tel電話：(852) 2802 2191 Fax傳真：(852) 2802 0863

Email電郵：info@bmintelligence.com Website網址：www.bmi-appraisals.com

18 May 2018

The Directors

Amuse Group Holding Limited

Flat A-C, 3A/F, Metex House

Nos. 24-32 Fui Yiu Kok Street

Tsuen Wan

Hong Kong

Dear Sirs,

INSTRUCTIONS

We refer to the instructions from Amuse Group Holding Limited (the “**Company**”) for us to value the real properties held by the Company and/or its subsidiaries (together referred to as the “**Group**”) located in Hong Kong. We confirm that we have conducted inspections, made relevant enquiries and obtained such further information, as we consider necessary for the purpose of providing you with our opinion of the market values of the real properties as at 31 March 2018 (the “**valuation date**”).

BASIS OF VALUATION

Our valuations of the concerned real properties have been based on the Market Value, which is defined by The Hong Kong Institute of Surveyors as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”. The Market Value is also understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associate taxes or potential taxes.

PROPERTY CATEGORISATIONS

In the course of our valuations, the portfolio of the real properties are categorized into the following groups:

- Group I – Real property held for investment by the Group in Hong Kong
- Group II – Real properties held for owner-occupation by the Group in Hong Kong

VALUATION METHODOLOGY

We have valued the real properties on market basis by the Comparison Approach assuming sale in their existing states with the benefit of vacant possession and by making reference to comparable sales evidence as available in the market. Appropriate adjustments have then been made to account for the differences between the real properties and the comparables in terms of location, size, time and other relevant factors. Where appropriate, we have also adopted Investment Approach by taking into account the current passing rent of the real property being held under existing tenancy and the reversionary potential of the tenancy if it has been or would be let to tenant.

TITLE INVESTIGATION

We have caused land searches to be made at the Land Registry of Hong Kong. However, we have neither examined the original documents to verify ownership nor to ascertain the existence of any amendments, which do not appear on the copies handed to us. All documents have been used for reference only.

VALUATION ASSUMPTIONS

Our valuations have been made on the assumptions that the real properties are sold in the market without the benefit of deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which would serve to affect the values of the real properties. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the real properties and no forced sale situation in any manner is assumed in our valuations.

VALUATION CONSIDERATIONS

The site inspections had been conducted by Mr. Andy Lee (MSc in Surveying, MRICS) from January to March in 2017. We have inspected the real properties externally and where possible, the interior of the real properties. In the course of our inspections, we did not note any serious defects. However, no structural surveys have been made. We are, therefore, unable to report whether the real properties are free from rot, infestation or any other structural defects. No tests were carried out on any of their services.

In the course of our valuations, we have relied to a considerable extent on the information given by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenures, particulars of occupancy, floor areas, identification of the real properties and other relevant information.

We have not carried out detailed on-site measurements to verify the correctness of the floor areas in respect of the real properties but have assumed that the floor areas shown on the documents handed to us are correct. Dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Group and are therefore only approximations.

We have no reason to doubt the truth and accuracy of the information provided to us by the Group and we have relied on your confirmation that no material facts have been omitted from the information so supplied.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the real properties or for any expenses or taxation, which may be incurred in effecting a sale.

Unless otherwise stated, it is assumed that the real properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

Our valuations have been prepared in accordance with The HKIS Valuation Standards (2017 Edition) published by The Hong Kong Institute of Surveyors and the International Valuation Standards (IVS) published by The International Valuation Standards Council.

Our valuations have been prepared under the generally accepted valuation procedures and are in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

REMARKS

Unless otherwise stated, all money amounts stated herein are in Hong Kong Dollars (HK\$) and no allowances have been made for any exchange transfers.

Our Summary of Values and the Valuation Certificates are attached herewith.

Yours faithfully,
For and on behalf of
BMI APPRAISALS LIMITED

Joannau W.F. Chan
BSc., MSc., MRICS, MHKIS, RPS(GP)
Senior Director

Note: Ms. Joannau W.F. Chan is a member of the Hong Kong Institute of Surveyors (General Practice) who has over 24 years' experience in valuations of real properties in Hong Kong.

SUMMARY OF VALUES

No.	Real property	Market Value in existing state as at 31 March 2018 HK\$
Group I – Real property held for investment by the Group in Hong Kong		
1.	Flat J on 32nd Floor of Tower 5 of Phase 1, Century Gateway, Century Gateway Development, No. 83 Tuen Mun Heung Sze Wui Road, Tuen Mun, New Territories, Hong Kong	10,300,000
	Sub-total:	<u>10,300,000</u>
Group II – Real properties held for owner-occupation by the Group in Hong Kong		
2.	Flat C on 59th Floor (including the balcony, utility platform and air-conditioning room thereof) of Tower 2, The Dynasty, No. 18 Yeung Uk Road, Tsuen Wan, New Territories, Hong Kong	15,300,000
3.	Workshop No. 1 on 14th Floor, Wang Lung Industrial Building, No. 11 Lung Tak Street, Tsuen Wan, New Territories, Hong Kong	5,700,000
	Sub-total:	<u>21,000,000</u>
	Total:	<u><u>31,300,000</u></u>

VALUATION CERTIFICATE

Group I – Real property held for investment by the Group in Hong Kong

No.	Real property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2018 HK\$
1.	Flat J on 32nd Floor of Tower 5 of Phase 1, Century Gateway, Century Gateway Development, No. 83 Tuen Mun Heung Sze Wui Road, Tuen Mun, New Territories, Hong Kong	The real property comprises a residential unit on the 32nd floor of a high-rise residential building which was completed in about 2012. The saleable area of the real property is approximately 642 sq.ft.	Pursuant to a tenancy agreement, the real property is leased to an independent third party for a term expiring on 9 January 2019 at a monthly rent of HK\$20,000 exclusive of rates and management fee.	10,300,000
	583/1,700,001th equal and undivided parts or shares of and in Tuen Mun Town Lot No. 447	The real property is held under New Grant No. 20296 for a term of 50 years commencing on 21 November 2006.		

Notes:

1. The registered owner of the real property is Sentinel International Co. Limited vide Memorial No. 13093000480209 dated 4 September 2013 at a consideration of HK\$6,463,700.
2. The real property is subject to a Deed of Mutual Covenant and Management Agreement with Plans vide Memorial No. 13083002490021 dated 15 August 2013.
3. The real property is subject to a Mortgage in favour of Hang Seng Bank Limited vide Memorial No. 17111500280168 dated 16 October 2017.
4. The real property is situated in Tuen Mun which is a residential area in the north-west New Territories, Hong Kong.

VALUATION CERTIFICATE

Group II – Real properties held for owner-occupation by the Group in Hong Kong

No.	Real property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2018 HK\$
2.	Flat C on 59th Floor (including the balcony, utility platform and air-conditioning room thereof) of Tower 2, The Dynasty, No. 18 Yeung Uk Road, Tsuen Wan, New Territories, Hong Kong 8/5,378th equal and undivided parts or shares of and in Tsuen Wan Town Lot No. 394	The real property comprises a residential unit on the 59th floor of a high-rise residential building which was completed in about 2009. The saleable area of the real property is approximately 744 sq.ft. The real property is held under New Grant No. TW7317 for a term of 50 years commencing on 20 July 2004.	The real property is occupied for residential use.	15,300,000

Notes:

1. The registered owner of the real property is Bestone Creative Development Limited vide Memorial No. 09123100340249 dated 4 December 2009.
2. The real property is subject to a Occupation Permit No. NT 6/2009 (OP) vide Memorial No. 09020400720135 dated 22 January 2009.
3. The real property is subject to a Deed of Mutual Covenant and Management Agreement with Plans vide Memorial No. 09072200640022 dated 29 June 2009.
4. The real property is subject to a Mortgage in favour of Hang Seng Bank Limited vide Memorial No. 17111500280024 dated 16 October 2017.
5. The real property is situated in Tsuen Wan which is a new town in Hong Kong. The immediate locality is a residential area.

VALUATION CERTIFICATE

No.	Real property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2018 HK\$
3.	Workshop No. 1 on 14th Floor, Wang Lung Industrial Building, No. 11 Lung Tak Street, Tsuen Wan, New Territories, Hong Kong 101/17,671th equal and undivided parts or shares of and in Tsuen Wan Town Lot No. 125	The real property comprises a workshop unit on the 14th floor of a high-rise industrial building which was completed in about 1989. The saleable area of the real property is approximately 1,759 sq.ft. The real property is held under New Grant No. 4683 for a term of 99 years commencing on 1 July 1898. The said term has been extended to 30 June 2047 by virtue of the New Territories Leases (Extension) Ordinance 1988.	The real property is occupied for industrial use.	5,700,000

Notes:

1. The registered owner of the real property is Sentinel International Company Limited vide Memorial No. 17030700640310 dated 13 February 2017 at a consideration of HK\$5,110,000.
2. The real property is subject to a Occupation Permit No. NT249/89 vide Memorial No. TW624220 dated 20 December 1989.
3. The real property is subject to a Deed of Mutual Covenant and Management Agreement with Plan vide Memorial No. TW646344 dated 19 February 1990.
4. The real property is situated in the industrial area of Tsuen Wan, Hong Kong.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 16 November 2016 under the Cayman Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (the "**Memorandum**") and its Amended and Restated Articles of Association (the "**Articles**").

1. MEMORANDUM OF ASSOCIATION

1.1 The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

1.2 By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 11 May 2018 with effect from Listing Date. A summary of certain provisions of the Articles is set out below.

2.1 Shares

2.1.1 *Classes of shares*

The share capital of the Company consists of ordinary shares.

2.1.2 *Variation of rights of existing shares or classes of shares*

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall mutatis mutandis apply to every such separate general meeting, but so that the necessary quorum (other than at an adjourned

meeting) shall be not less than two persons together holding (or, in the case of a shareholder being a corporation, by its duly authorized representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.1.3 *Alteration of capital*

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; and (g) change the currency of denomination of its share capital.

2.1.4 *Transfer of shares*

Subject to the Cayman Companies Law and the requirements of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register. Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the GEM Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

2.1.5 Power of the Company to purchase its own shares

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

2.1.6 Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

2.1.7 Calls on shares and forfeiture of shares

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

2.2 Directors

2.2.1 *Appointment, retirement and removal*

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the "retirement by rotation" provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

- (a) resign;
- (b) dies;
- (c) is declared to be of unsound mind and the Board resolves that his office be vacated;
- (d) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (e) he is prohibited from being or ceases to be a director by operation of law;
- (f) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (g) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or
- (h) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

2.2.2 Power to allot and issue shares and warrants

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

2.2.3 Power to dispose of the assets of the Company or any of its subsidiaries

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

2.2.4 Borrowing powers

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

2.2.5 Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, pro rata. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

2.2.6 Compensation or payments for loss of office

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

2.2.7 Loans and provision of security for loans to Directors

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more of the Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

2.2.8 Disclosure of interest in contracts with the Company or any of its subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (a) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

- (b) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (c) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (d) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (e) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

2.2.9 Proceedings of the Board

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3 Alterations to the constitutional documents and the Company's name

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

2.4 Meetings of member

2.4.1 *Special and ordinary resolutions*

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An “ordinary resolution”, by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

2.4.2 *Voting rights and right to demand a poll*

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the GEM Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

- (a) at least two members;
- (b) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (c) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the GEM Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

2.4.3 Annual general meetings

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

2.4.4 Notices of meetings and business to be conducted

An annual general meeting of the Company shall be called by at least 21 days' notice in writing, and any other general meeting of the Company shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Cayman Companies Law and the GEM Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (a) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

2.4.5 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

2.4.6 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

2.5 Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to shareholders who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

2.6 Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- 2.6.1 all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;
- 2.6.2 all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and
- 2.6.3 the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

- (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

2.7 Inspection of corporate records

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

2.8 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarized in paragraph 3.6 of this Appendix.

2.9 Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

2.9.1 if the Company is wound up, the surplus assets remaining after payment to all creditors shall be divided among the members in proportion to the capital paid up on the shares held by them respectively; and

2.9.2 if the Company is wound up and the surplus assets available for distribution among the members are insufficient to repay the whole of the paid-up capital, such assets shall be distributed, subject to the rights of any shares which may be issued on special terms and conditions, so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

2.10 Subscription rights reserve

Provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3 CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on 16 November 2016 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

3.1 Company operations

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

3.2 Share capital

Under Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- 3.2.1 paying distributions or dividends to members;
- 3.2.2 paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- 3.2.3 any manner provided in section 37 of the Cayman Companies Law;
- 3.2.4 writing-off the preliminary expenses of the company; and
- 3.2.5 writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

3.3 Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

3.4 Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Cayman Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

3.5 Dividends and distributions

Subject to a solvency test, as prescribed in the Cayman Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

3.6 Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

3.7 Disposal of assets

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

3.8 Accounting and auditing requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

3.9 Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

3.10 Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that:

- 3.10.1 no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- 3.10.2 no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (a) on or in respect of the shares, debentures or other obligations of the Company; or
 - (b) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking for the Company is for a period of 20 years from 28 February 2017.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

3.11 Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

3.12 Loans to directors

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

3.13 Inspection of corporate records

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

3.14 Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands.

3.15 Register of Directors and officers

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 60 days of any change in such directors or officers, including a change of the name of such directors or officers.

3.16 Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

3.17 Reconstructions

Reconstructions and amalgamations may be approved by a majority in number representing 75% in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

3.18 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

3.19 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4 GENERAL

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix VII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES**1. Incorporation**

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law on 16 November 2016. Our Company's registered office is located at PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. Our Company has established our principal place of business in Hong Kong at Flat A-C, 3A/F, Metex House, 24-32 Fui Yiu Kok Road, Tsuen Wan, Hong Kong and has been registered with the Companies Registry as a non-Hong Kong company on 23 February 2017 under Part 16 of the Companies Ordinance, with Mr. Li appointed as the authorised representative of our Company for acceptance of service of process in Hong Kong.

As our Company was incorporated in the Cayman Islands, its operations are subject to the relevant laws and regulations of the Cayman Islands, Companies Law and its constitution, which comprises its Memorandum of Association and Articles of Association. A summary of various provisions of the Memorandum and Articles of Association and relevant aspects of the Companies Law is set out in Appendix V to this prospectus.

2. Changes in share capital of our Company

- (a) Our Company was incorporated in the Cayman Islands on 16 November 2016 with an authorised share capital of HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. As at the date of incorporation, our Company allotted and issued one subscriber Share for cash at par to a nominee subscriber, who on the same date transferred that one subscriber Share to New Express for cash at par.
- (b) On 16 November 2016, our Company allotted and issued, credited as fully paid, 8,500 Shares to Infinite Force and 1,499 Shares to New Express. Upon completion of the above transfer and allotments of Shares, our Company was held as to 85% by Infinite Force and 15% by New Express.
- (c) On 7 March 2017, our Company acquired from Mr. Li and New Express all of their respective equity interests in Amuse. In consideration of the acquisitions, our Company allotted and issued, credited as fully paid, 8,500 Shares to Infinite Force (at the direction of Mr. Li) and 1,500 Shares to New Express. Upon completion of the above transfers and allotments of shares, our Company was held as to 85% by Infinite Force and 15% by New Express.

- (d) Pursuant to the written resolutions of our Shareholders passed on 11 May 2018, the authorised share capital of our Company was increased from HK\$380,000 to HK\$100,000,000 by the creation of a further 9,962,000,000 Shares.
- (e) Immediately following the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), the issued share capital of our Company will be HK\$10,000,000 divided into 1,000,000,000 Shares fully paid or credited as fully paid and 9,000,000,000 Shares will remain unissued. Other than pursuant to the exercise of any options which may be granted under the Share Option Scheme, the Directors do not have any present intention to issue any part of the authorised but unissued share capital of our Company and, without prior approval of the Shareholders at general meeting, no issue of Shares will be made which would effectively alter the control of our Company.
- (f) Save as aforesaid, there has been no alteration in the share capital of our Company since its incorporation.

3. Written resolutions of our Shareholders passed on 11 May 2018

Pursuant to the written resolutions of our Shareholders passed on 11 May 2018:

- (a) the authorised share capital of our Company was increased from HK\$380,000 to HK\$100,000,000 by the creation of a further 9,962,000,000 Shares of HK\$0.01 each ranking *pari passu* in all respect with the then existing Shares;
- (b) the Memorandum of Association and the Articles of Association were conditionally approved and adopted;
- (c) conditional on the conditions as set out in the section headed "Structure and conditions of the Share Offer" of this prospectus:
 - (i) the Share Offer was approved and our Directors were authorised to allot and issue the Offer Shares pursuant to the Share Offer;

- (ii) conditional upon the share premium account of our Company being credited as a result of the allotment and issue of the Offer Shares pursuant to the Share Offer, our Directors were authorised to capitalise an amount of HK\$7,499,800 then standing to the credit of the share premium account of our Company and to apply such sum in paying up in full at par value a total of 749,980,000 Shares for the allotment and issue to following Shareholders whose names are registered on the register of the Company as of 11 May 2018, in the following manner:

Shareholder	Number of Shares to be allotted and issued
Infinite Force	637,483,000
New Express	<u>112,497,000</u>
	<u><u>749,980,000</u></u>

- (iii) the rules of the Share Option Scheme were approved and adopted and our Directors were authorised to implement the same, grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant thereto;
- (iv) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with, otherwise than (I) by way of rights issue or an issue of shares upon the exercise of any subscription rights attached to any warrants of our Company or (II) pursuant to the exercise of any options which may be granted under the Share Option Scheme or any other option scheme or similar arrangement or (III) pursuant to any scrip dividend, schemes or similar arrangements providing for the allotment and issue of shares of our Company in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association or (IV) pursuant to the Capitalisation Issue or Share Offer or (V) pursuant to a specific authority granted by the Shareholders in general meeting, Shares with an aggregate number not exceeding (i) 20% of the aggregate number of Shares in issue immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme) and (ii) the aggregate number of Shares repurchased under the authority granted to our Directors as referred to in paragraph (v) below, until whichever is the earliest of:

- (1) the conclusion of the next annual general meeting of our Company;
 - (2) the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any applicable laws of Cayman Islands to be held; or
 - (3) the passing of an ordinary resolution of our Shareholders in a general meeting revoking, varying or renewing such mandate;
- (v) a general unconditional mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase Shares on the Stock Exchange or other stock exchange on which Shares may be listed and which is recognised by the SFC and the Stock Exchange for this purpose with an aggregate number of not exceeding 10% of the aggregate number of Shares in issue immediately following the completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), until whichever is the earliest of:
- (1) the conclusion of the next annual general meeting of our Company;
 - (2) the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any applicable law of Cayman Islands to be held; or
 - (3) the passing of an ordinary resolution of our Shareholders in a general meeting revoking, varying or renewing such mandate.

4. Corporate reorganisation

The companies comprising our Group underwent the Reorganisation in preparation for the Listing. Please refer to the section headed "History, reorganisation and corporate structure" in this prospectus for further details.

5. Changes in share capital of subsidiaries of our Company

Our subsidiaries are set forth under the Accountants' Report as included in Appendix I to this prospectus. Save for the subsidiaries mentioned in Appendix I to this prospectus, our Company has no other subsidiaries.

Save as disclosed in the section headed “History, reorganisation and corporate structure” in this prospectus, there has been no alteration in the share capital of any of our subsidiaries within the two years immediately preceding the date of this prospectus.

6. Repurchase by our Company of our own securities

The following paragraphs include information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company our own securities.

(a) *Provisions of the GEM Listing Rules*

The GEM Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) *Shareholders’ approval*

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in a general meeting, either by way of general mandate or by special approval of a particular transaction. Our Company’s sole listing will be on the Stock Exchange.

Pursuant to a resolution in writing passed by our Shareholders on 11 May 2018, a general unconditional mandate (the “**Repurchase Mandate**”) was given to our Directors to exercise all powers of our Company to purchase Shares on the Stock Exchange, or on any other stock exchange on which our Shares may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10% of the aggregate number of Shares in issue immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares falling to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme). The general mandate will expire at the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or applicable laws of Cayman Islands to be held, or when revoked or varied by ordinary resolution of our Shareholders in general meeting, whichever shall first occur.

(ii) *Source of funds*

Any repurchases must be financed out of funds legally available for such purpose in accordance with the Memorandum of Association and Articles of Association and any applicable laws of the Cayman Islands. A listed company is prohibited from repurchasing its own securities on the GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Under the laws of the Cayman Islands, any repurchases by our Company may be made out of profits of our Company or out of the proceeds of a fresh issue of share made for the purpose of the repurchase or, if authorised by the Articles of Association and subject to the Companies Law, out of capital and, in case of any premium payable on the repurchase, out of profits of our Company or from sums standing to the credit of the share premium accounts of our Company, or if authorised by the Articles of Association and subject to the Companies Law, out of capital.

(iii) *Trading restrictions*

A company is authorised to repurchase on the GEM or on any other stock exchange recognised by the SFC in Hong Kong and the Stock Exchange the total number of shares which represent up to a maximum of 10% of the aggregate number of shares in issue of that company or warrants to subscribe for shares in that company representing up to 10% of the amount of warrants then outstanding at the date of the passing of the relevant resolution granting the repurchase mandate. A company may not issue or announce an issue of new securities of the type that have been repurchased for a period of 30 days immediately following a repurchase of securities whether on the GEM or otherwise (except pursuant to the exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to the repurchase) without the prior approval of the Stock Exchange. A company is also prohibited from making securities repurchase on the GEM if the result of the repurchases would be that the number of the listed securities in hands of the public would be below the relevant prescribed minimum percentage for that company as required and determined by the Stock Exchange. A company shall not purchase its shares on the GEM if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the GEM.

(iv) Status of repurchased securities

The listing of all repurchased securities (whether on GEM or otherwise) is automatically cancelled upon the repurchase and the relevant certificates must be cancelled and destroyed. Under the laws of the Cayman Islands, a company's repurchased shares if not held by the company as treasury shares, shall be treated as cancelled and, if so cancelled, the amount of that company's issued share capital shall be diminished by the aggregate nominal value of the repurchased shares accordingly but the authorised share capital of the company shall not be reduced.

(v) Suspension of repurchase

A listed company shall not make any repurchase of securities at any time after inside information has come to its knowledge until the information is made publicly available. In particular, during the period of one month immediately preceding the earlier of: (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the GEM Listing Rules) and (ii) the deadline for publication of an announcement of a listed company's results for any year or half-year under the GEM Listing Rules, or quarterly or any other interim period (whether or not required under the GEM Listing Rules) and ending on the date of the results announcement, the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances and provided that a waiver on all or any of the restrictions under the GEM Listing Rules has been granted by the Stock Exchange. In addition, the Stock Exchange may prohibit repurchases of securities on the GEM if a company has breached the GEM Listing Rules.

(vi) Reporting requirements

Repurchases of securities on the GEM or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following trading day. In addition, a company's annual report and accounts are required to include a monthly breakdown of securities repurchases made during the financial year under review, showing the number of securities repurchased each month (whether on the GEM or otherwise), the purchase price per share or the highest and lowest prices paid for all such repurchases and the total prices paid. The directors' report is also required to contain reference to the purchases made during the year and the directors' reasons for making such purchases. The company shall make arrangements with its broker who effects the purchase to provide the company in a timely fashion the necessary information in relation to the purchase made on behalf of the company to enable the company to report to the Stock Exchange.

(vii) Core connected persons

Under the GEM Listing Rules, a company shall not knowingly repurchase shares from a core connected person (as defined in the GEM Listing Rules) and a core connected person shall not knowingly sell his/her/its shares to the company.

(b) Exercise of the Repurchase Mandate

Exercise in full of the Repurchase Mandate, on the basis of 1,000,000,000 Shares in issue immediately after Listing, could accordingly result in up to 100,000,000 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

(c) Reasons for repurchases

Repurchases of Shares will only be made when our Directors believe that such a repurchase will benefit our Company and Shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value and/or earnings per Share.

(d) Funding of repurchases

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with our Memorandum of Association and Articles of Association and the applicable laws and regulations of the Cayman Islands.

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account the current working capital position of our Group, our Directors consider that, if the Repurchase Mandate was to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

(e) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules, our Memorandum and Articles and the applicable laws of the Cayman Islands.

No core connected person of our Company has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, in the event that the Repurchase Mandate is exercised.

If as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. As a result, a Shareholder, or a group of Shareholders acting in concert, depending on the level of increase in the Shareholder's interest, could obtain or consolidate control of our Company and become(s) obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequence which would arise under the Takeovers Code due to any repurchase made pursuant to the Repurchase Mandate immediately after the Listing.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years immediately preceding the date of this prospectus and are or may be material:

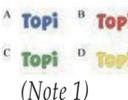
- (a) a reorganisation agreement dated 7 March 2017 entered into between Mr. Li, New Express, Amuse and our Company, pursuant to which our Company agreed to acquire the entire issued share capital of Amuse from Mr. Li and New Express, and as consideration, our Company allotted and issued 8,500 shares to Infinite Force and 1,500 shares to New Express;
- (b) the Deed of Indemnity;
- (c) the Deed of Non-competition; and
- (d) the Public Offer Underwriting Agreement.

2. Intellectual property rights

(a) Trademarks

As at the Latest Practicable Date, our Group had registered the following trademarks which are material to our business:

Trademark	Place of registration	Registration number	Name of registrant	Class	Expiry date
A 	HK	302361159AA	Sentinel Hong Kong	21, 28, 41	29 August 2022
B 					
C 					
A 	HK	302361168AA	Sentinel Hong Kong	21, 28, 41	29 August 2022
B 					
	PRC	11327748	Sentinel Hong Kong	16	6 January 2024
	PRC	11327906	Sentinel Hong Kong	21	6 January 2024
	PRC	11327969	Sentinel Hong Kong	28	13 July 2024

Trademark	Place of registration	Registration number	Name of registrant	Class	Expiry date
	PRC	11327771	Sentinel Hong Kong	16	6 January 2024
	PRC	11327873	Sentinel Hong Kong	21	6 January 2024
	PRC	11328002	Sentinel Hong Kong	28	6 January 2024
	Taiwan	01809924	Sentinel Hong Kong	16, 28, 41	30 November 2026
	United States	87185630	Sentinel Hong Kong	21, 28, 41	14 August 2027
 (Note 1)	Hong Kong	303667861	Sentinel Hong Kong	16, 28, 41	24 January 2026
 (Note 2)	PRC	19105525	Sentinel Hong Kong	16	20 March 2027
 (Note 2)	PRC	19105633	Sentinel Hong Kong	28	20 March 2027
 (Note 2)	PRC	19105612	Sentinel Hong Kong	41	20 March 2027
 (Note 3)	Taiwan	01799512	Sentinel Hong Kong	16, 28, 41	15 October 2026
 (Note 3)	Japan	5875772	Sentinel Hong Kong	16, 28, 41	19 August 2026
 (Note 4)	Hong Kong	304004027	Lai Ga	16, 28, 41	27 December 2026
	PRC	22953331	Lai Ga	16	20 April 2028

Notes:

- (1) This trademark was originally registered under the name of Mr. Li. On 10 February 2017, Mr. Li agreed to assign the trademark to Sentinel Hong Kong.
- (2) The applications to register these trademarks were originally made by Mr. Li on 16 February 2016. On 10 February 2017, Mr. Li assigned these applications to Sentinel Hong Kong.
- (3) These trademarks were originally registered under the name of Mr. Li. On 14 February 2017, Mr. Li agreed to assign these trademarks to Sentinel Hong Kong.
- (4) This trademark was originally registered under the name of Mr. Li. On 1 March 2017, Mr. Li agreed to assign the trademark to Lai Ga.

As at the Latest Practicable Date, our Group had made applications to register the following trademarks:

Trademark	Place of application	Application number	Name of applicant	Class	Application date
	United States	87185629	Sentinel Hong Kong	21, 28, 41	28 September 2016
	PRC	22952492	Lai Ga	28	27 February 2017
	PRC	22953543	Lai Ga	41	27 February 2017

(b) Domain names

As at the Latest Practicable Date, our Group had registered the following domain names:

Domain name ^(Note)	Registrant	Registration date	Expiry date
d4toys.com	D4 Toys	19 June 2012	19 June 2019
laigatoys.com.hk	Lai Ga	26 March 2012	26 March 2019
sen-ti-nel.com	Lai Ga	7 June 2014	7 June 2019
sentinel-toys.com	Lai Ga	27 March 2012	27 March 2019
amusegroupholding.com	The Company	3 May 2018	3 May 2021

Note: Information contained in these websites does not form part of this prospectus.

Save as disclosed herein, there are no other trade or service marks, patents, copyrights, other intellectual or industrial property rights which are or may be material to the business of our Group.

C. FURTHER INFORMATION ABOUT DIRECTORS, SENIOR MANAGEMENT AND STAFF

1. Directors

(a) Disclosure of interests of Directors

So far as our Directors are aware, immediately following completion of the Capitalisation Issue and the Share Offer without taking into account the Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme, the interests and short positions of our Directors and chief executive of our Company in the Shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have taken under such provisions), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to Rules 5.46 and 5.67 of the GEM Listing Rules, will be as follows:

(i) Long position in Shares

Name of Director	Capacity and nature of interests	Number of Shares held	Percentage of issued share capital
Mr. Li ^(Note)	Interest of controlled corporation	637,500,000 ordinary Shares	63.75%

Note: Infinite Force is the registered owner of 637,500,000 Shares, representing 63.75% of our issued share capital immediately upon completion of the Capitalisation Issue and the Share Offer (without taking into account any Share which may be issued upon the exercise of any options which may be granted under the Share Option Scheme). As Mr. Li owns the entire issued share capital of Infinite force, he is deemed to be interested in all the Shares registered in the name of Infinite Force under the SFO.

(ii) *Long position in the ordinary shares of associated corporation*

Name of Director	Name of associated corporation	Capacity/ nature of interests	Number of share held	Percentage of interest
Mr. Li ^(Note)	Infinite Force	Beneficial owner	1 ordinary share	100%

Note: Infinite Force is the registered owner of 637,500,000 Shares, representing 63.75% of our issued share capital immediately upon completion of the Capitalisation and the Share Offer (without taking into account any Share which may be issued upon the exercise of any options which may be granted under the Share Option Scheme). It is in turn wholly owned by Mr. Li. Under the SFO, Infinite Force is an associated corporation of our Company.

(b) *Particulars of service contracts**Executive Directors*

Each of Mr. Li, Mr. To Hoi Pan and Ms. Lee Kwai Fong, being all of our executive Directors, has entered into a service contract with our Company for an initial fixed term of three years commencing from the Listing Date renewable automatically until terminated by not less than three months' notice in writing served by either party on the other expiring at the end of the initial term or any time thereafter.

Commencing from the Listing Date, each of our executive Directors is entitled to an initial annual salary set out below, such salary to be reviewed annually by our Board and the remuneration committee of our Company. In addition, each of our executive Directors is entitled to such discretionary management bonus by reference to the consolidated net profits of our Group after taxation and minority interest but before extraordinary items as our Board and the remuneration committee of our Company may approve, provided that our executive Director shall abstain from voting and not be counted in the quorum in respect of any resolution of our Board approving the amount of annual salary, management bonus and other benefits payable to him/her.

Name	Amount (HK\$)
Mr. Li	1,560,000
Mr. To Hoi Pan	715,000
Ms. Lee Kwai Fong	338,000

Independent non-executive Directors

Each of Mr. Yu Pui Hang, Mr. Tung Man and Ms. Chow Chi Ling Janice, being all our independent non-executive Directors, has entered into a letter of appointment with our Company. Each letter of appointment takes effect from the date of the letter of appointment, and shall continue for an initial fixed term of three years from the Listing Date, and provided that either party can at any time terminate the appointment by giving to the other party not less than three months prior notice in writing. Commencing from the Listing Date, each independent non-executive Director is entitled to an annual director's fee of HK\$120,000.

Save as disclosed above, none of our Directors has or is proposed to enter into a service contract/letter of appointment with our Company or any of our subsidiaries (other than contracts expiring or determinable by our Group within one year without the payment of compensation (other than statutory compensation)).

(c) *Directors' remuneration*

Our Company's policies concerning remuneration of executive Directors are:

- (i) the amount of remuneration payable to our executive Directors will be determined on a case by case basis depending on the experience, responsibility, workload and the time devoted to our Group by the relevant Director;
- (ii) non-cash benefits may be provided to our Directors under their remuneration package; and
- (iii) our executive Directors may be granted, at the discretion of our Board, share options of our Company, as part of the remuneration package.

The aggregate of the remuneration (including salaries and allowance) paid and benefits in kind granted by our Group to our Directors for each of the two years ended 31 March 2017 and the nine months ended 31 December 2017 was approximately HK\$1,376,000, HK\$2,103,000 and HK\$2,039,000, respectively. Further information in respect of our Directors' remuneration is mentioned in note 8 of the accountants' report set out in Appendix I to this prospectus.

2. Substantial Shareholders

So far as our Directors are aware, immediately following the completion of the Capitalisation Issue and the Share Offer and taking no account of any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme, the following persons or entities (not being our Directors or chief executive of our Company) will have an interest or a short position in the Shares or the underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other members of our Group:

Name of Shareholder	Capacity/ Nature of interest	Number of Shares	Percentage of shareholding
Infinite Force (<i>Note 1</i>)	Beneficial owner	637,500,000 ordinary Shares	63.75%
Ms. Fong Wing Yan (<i>Note 2</i>)	Interest of spouse	637,500,000 ordinary Shares	63.75%
New Express (<i>Note 3</i>)	Beneficial owner	112,500,000 ordinary Shares	11.25%
China Investment and Finance Group Limited (<i>Note 3</i>)	Interest of controlled corporation	112,500,000 ordinary Shares	11.25%

Notes:

- (1) Infinite Force is the registered owner of 637,500,000 Shares, representing 63.75% of our issued share capital immediately upon completion of the Capitalisation Issue and the Share Offer (without taking into account any Share which may be issued upon the exercise of any options which may be granted under the Share Option Scheme).
- (2) Ms. Fong Wing Yan is the spouse of Mr. Li. Under the SFO, Ms. Fong Wing Yan is deemed to be interested in the same number of Shares in which Mr. Li is interested.
- (3) New Express is wholly owned by China Investment and Finance Group Limited, a company incorporated in the Cayman Islands and whose shares are listed on the Stock Exchange (stock code: 1226). Under the SFO, China Investment and Finance Group Limited is deemed to be interested in the Shares registered in the name of New Express.

3. Related Party Transaction

Our Group entered into the related party transaction during the Track Record Period as mentioned in note 21 of the accountants' report set out in Appendix I to this prospectus.

4. Agency fees or commission

Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any Share or loan capital of our Company or any of its subsidiaries.

5. Disclaimers

Save as disclosed in this Appendix and the section headed "Substantial Shareholders" in this prospectus, as at the Latest Practicable Date:

- (a) and taking no account of any Shares which may be taken up or acquired under the Share Offer or any Shares which may be allotted and issued upon the exercise of any options which have been or may be granted under the Share Option Scheme, our Directors are not aware of any person who immediately following completion of the Capitalisation Issue and the Share Offer will have an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who is, either directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of our Company or any other members of our Group;
- (b) none of our Directors and chief executive of our Company has for the purposes of Divisions 7 and 8 of Part XV of the SFO or the GEM Listing Rules, nor is any of them taken to or deemed to have under Divisions 7 and 8 of Part XV of the SFO, an interest or short position in the shares, underlying shares and debentures of our Company or any associated corporations (within the meaning of the SFO) or any interests which will have to be entered in the register to be kept by our Company pursuant to section 352 of the SFO or which will be required to be notified to our Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules once the Shares are listed on the Stock Exchange;

- (c) none of our Directors nor the experts named in the paragraph headed “Qualifications of experts” in this Appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group; and
- (d) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group.

D. SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme conditionally approved by our existing Shareholders on 11 May 2018.

For the purpose of this section, unless the context otherwise requires:

“Board”	means our board of Directors from time to time or a duly authorised committee thereof;
“Eligible Person”	means any full-time or part-time employee of our Company or any member of our Group, including any executive directors, non-executive directors and independent non-executive directors, suppliers, customers, agents, advisors and consultants of our Group who, in the sole opinion of our Board, will contribute or have contributed to our Group;
“Option”	means an option to subscribe for Shares granted pursuant to the Share Option Scheme;
“Option Period”	means in respect of any particular Option, the period to be determined and notified by our Board to each Participant, which period may commence on a day on or after the date upon which the Option is accepted or deemed to be accepted in accordance with the Share Option Scheme but shall end in any event not later than ten years from such date;
“Other Schemes”	means any other share option schemes adopted by our Group from time to time pursuant to which options to subscribe for Shares may be granted;

“Participant”	means any Eligible Person who accepts or is deemed to have accepted the offer of any Option in accordance with the terms of the Share Option Scheme or (where the context so permits) a person entitled to any such Option in consequence of the death of the original Participant;
“Shareholders”	means shareholders of our Company from time to time;
“Subsidiary”	means a company which is for the time being and from time to time a subsidiary (within the meaning of section 15 of the Companies Ordinance) of our Company, whether incorporated in Hong Kong or elsewhere; and
“Trading Day”	means a day on which trading of Shares take place on the Stock Exchange.

(a) Purpose of the Share Option Scheme

The Share Option Scheme enables our Company to grant Options to the Eligible Persons as incentives or rewards for their contributions to our Group.

(b) Who may join

Our Board may, at its discretion, invite any Eligible Persons to take up Options at a price calculated in accordance with sub-paragraph (d) below. Upon acceptance of the Option, the Eligible Person shall pay HK\$1.00 to our Company by way of consideration for the grant. The Option will be offered for acceptance for a period of 28 days from the date on which the Option is granted.

(c) Grant of Option

Any grant of Options must not be made after inside information has come to our knowledge until such inside information has been announced in accordance with the requirements of the GEM Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (a) the date of our Board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of our Company’s results for any year, half-year, quarter-year period or any other interim period (whether or not required under the GEM Listing Rules), and (b) the deadline for our Company to publish an announcement of its results for any year, half-year, quarter-year period or any interim period (whether or not required under the GEM Listing Rules), and ending on the date of the results announcement, no Option may be granted. The period during which no Option may be granted will cover any period of delay in the publication of results announcement. Our Directors may not grant any Option to an Eligible Person who is our Director during the periods or times in which directors of

the listed issuer are prohibited from dealing in shares pursuant to Rules 5.48 to 5.67 prescribed by the GEM Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

The total number of Shares issued and to be issued upon exercise of the Options granted to a Participant under the Share Option Scheme and Other Schemes (including both exercised and outstanding Options) in any 12-month period must not exceed 1% of the Shares in issue from time to time, and provided that if approved by Shareholders in general meeting with such Participant and his/her/its close associates (or his/her/its associates if the participant is a connected person) abstaining from voting, our Company may make a further grant of Options to such Participant (the “**Further Grant**”) notwithstanding that the Further Grant would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted under the Share Option Scheme and Other Schemes to such Participant (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of the Further Grant representing in aggregate over 1% of the Shares in issue from time to time. In relation to the Further Grant, our Company must send a circular to the Shareholders, which discloses the identity of the relevant Participant, the number and the terms of the Options to be granted (and Options previously granted to such Participant under the Share Option Scheme and Other Schemes) and the information required under the GEM Listing Rules. The number and terms (including the exercise price) of Options which is the subject of the Further Grant shall be fixed before the relevant Shareholders’ meeting and the date of meeting of our Board for proposing the Further Grant should be taken as the date of grant for the purpose of calculating the relevant subscription price.

(d) Price of Shares

The subscription price for the Shares subject to Options will be a price determined by our Board and notified to each Participant and shall be the highest of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the date of grant of the Options, which must be a Trading Day; (ii) the average closing price of the Shares as stated in the Stock Exchange’s daily quotations sheets for the five Trading Days immediately preceding the date of grant of the Options; and (iii) the nominal value of a Share. For the purpose of calculating the subscription price, in the event that on the date of grant, our Company has been listed for less than five Trading Days, the Offer Price shall be used as the closing price for any Trading Day falling within the period before the Listing Date.

(e) **Maximum number of Shares**

- (i) The total number of Shares which may be issued upon the exercise of all Options to be granted under the Share Option Scheme and Other Schemes must not, in aggregate, exceed 10% of the Shares in issue as at the Listing Date (the “**Scheme Mandate Limit**”) provided that Option lapsed in accordance with the terms of the Shares Option Scheme or Other Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit. On the basis of 1,000,000,000 Shares in issue on the Listing Date, the Scheme Mandate Limit will be equivalent to 100,000,000 Shares, representing 10% of the Shares in issue as at the Listing Date.
- (ii) Subject to the approval of Shareholders in general meeting, our Company may refresh the Scheme Mandate Limit to the extent that the total number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and Other Schemes under the Scheme Mandate Limit as refreshed must not exceed 10% of the Shares in issue as at the date of such Shareholders’ approval provided that Options previously granted under the Share Option Scheme and Other Schemes (including those outstanding, cancelled, exercised or lapsed in accordance with the terms thereof) will not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. In relation to the Shareholders’ approval referred to in this paragraph (ii), our Company shall send a circular to the Shareholders containing the information required by the GEM Listing Rules.
- (iii) Subject to the approval of Shareholders in general meeting, our Company may also grant Options beyond the Scheme Mandate Limit provided that Options in excess of the Scheme Mandate Limit are granted only to Eligible Persons specifically identified by our Company before such Shareholders’ approval is sought. In relation to the Shareholders’ approval referred to in this paragraph (iii), our Company shall send a circular to its Shareholders containing a generic description of the identified Eligible Persons, the number and terms of the Options to be granted, the purpose of granting Options to the identified Eligible Persons, an explanation as to how the terms of such Options serve the intended purpose and such other information required by the GEM Listing Rules.
- (iv) Notwithstanding the foregoing, our Company may not grant any Options if the number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and Other Schemes exceeds 30% of the Shares in issue from time to time.

(f) Time of exercise of Option

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Board to each Participant provided that the period within which the Option must be exercised shall not be more than ten years from the date of the grant of Option. The exercise of an Option may be subject to the administration of our Board whose decision as to all matters arising from or in relation to the Share Option Scheme as its interpretation or effect shall (save as otherwise provided herein) be final and binding on all parties to the Share Option Scheme.

(g) Rights are personal to grantee

An Option shall be personal to the Participant and shall not be assignable or transferable and no Participant shall in any way sell, transfer, charge, mortgage, encumber or create any interest whether legal or beneficial in favour of any third party over or in relation to any Option. Any breach of the foregoing by the Participant shall entitle our Company to cancel any Option or any part thereof granted to such Participant (to the extent not already exercised) without incurring any liability on our Company.

(h) Rights on death

If a Participant dies before exercising the Options in full, his or her personal representative(s) may exercise the Options in full (to the extent that it has become exercisable on the date of death and not already exercised) within a period of 12 months from the date of death, failing which such Options will lapse.

(i) Changes in capital structure

In the event of any alteration in the capital structure of our Company while an Option remains exercisable, and such event arises from a capitalisation issue, rights issue, subdivision or consolidation of Shares or reduction of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction to which our Company is a party), such corresponding adjustment (if any) shall be made in the number of Shares (without fractional entitlements) subject to the Options so far as unexercised, and/or the subscription price, so as to give each Participant the same proportion of the issued share capital of our Company as that to which the Participant was previously entitled.

Except alterations made on a capitalisation issue, the auditors of our Company or an independent financial adviser appointed by our Company shall confirm in writing to our Board that the above adjustment is made on the basis that the proportion of the issued share capital of our Company to which a Participant is entitled after such adjustment shall remain the same as that to which he or she was entitled before such adjustment. However, no such adjustment shall be made to the effect of which would be to enable any Share to be issued at less than its nominal value.

(j) Rights on take-over

If a general offer (whether by way of takeover offer, repurchase offer or scheme of arrangement or otherwise in like manner) has been made to all the Shareholders (other than the offeror and/or any persons acting in concert with the offeror), to acquire all or part of the issued Shares, and such offer, having been approved in accordance with applicable laws and regulatory requirements, becomes or is declared unconditional, the Participant shall be entitled to exercise his/her/its outstanding Option in full or any part thereof within 14 days after the date on which such offer becomes or is declared unconditional. For the purposes of this sub-paragraph, "acting in concert" shall have the meaning ascribed to it under the Takeovers Code.

(k) Rights on a compromise or arrangement

- (i) If an application is made to the court (otherwise than where our Company is being voluntarily wound up), pursuant to the Companies Law or the Companies Ordinance, in connection with a proposed compromise or arrangement between our Company and our creditors (or any class of them) or between our Company and our Shareholders (or any class of them), a Participant may by notice in writing to our Company, within a period of 21 days after the date of such application, exercise his/her/its outstanding Option in full extent or to the extent specified in such note. Upon the compromise or arrangement becoming effective, all Options shall lapse except insofar as exercised. Notice of the application referred to herein and the effect thereof shall be given by our Company to all Participants as soon as practicable.
- (ii) In the event of a notice being given by our Company to our Shareholders to convene a general meeting for the purpose of approving a resolution to voluntarily wind up our Company when our Company is solvent, our Company shall on the day of such notice to each Shareholder or as soon as practicable, give notice thereof to all Participants. Thereupon each Participant shall be entitled to exercise all or any of his/her/its outstanding Options at any time no later than two Business Days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon our Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot and issue the relevant Shares to the Participant credited as fully paid.

(I) Lapse of Option

An Option shall lapse forthwith and not exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the Option as may be determined by the Board;
- (ii) subject to paragraphs (f) and (p), the expiry of the Option Period of the Option;
- (iii) the first anniversary of the death of the Participant;
- (iv) the commencement of the winding up of the Company;
- (v) in the event that the Participant was an employee or director of any member of our Group on the date of grant of Option to him or her, the date on which such member of our Group terminates the Participant's employment or removes the Participant from his or her office on the ground that the Participant has been guilty of misconduct, has committed an act of bankruptcy or has become insolvent or has made any arrangements or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty. A resolution of our Board or the board of directors of the relevant member of our Group to the effect that such employment or office has or has not been terminated or removed on one or more grounds specified in this sub-paragraph shall be conclusive;
- (vi) in the event that the Participant was an employee or director of any member of our Group on the date of grant of Option to him or her, the expiry of a period of three months from the date of the Participant ceasing to be an employee or director of such member of our Group by reason of:
 - (1) his or her retirement on or after attaining normal retirement age or, with the express consent of the Board in writing for the purpose of this sub-paragraph, at a younger age;
 - (2) ill health or disability recognised as such expressly by our Board in writing for the purpose of this sub-paragraph;
 - (3) the company by which he or she is employed and/or of which he or she is a director (if not our Company) ceasing to be a subsidiary of our Company;

- (4) expiry of his or her employment contract or vacation of his or her office with such member of our Group such contract or office is not immediately extended or renewed; or
- (5) at the discretion of our Board, any reason other than death or the reasons described in sub-paragraph (v) or (vi) (1) to (4);
- (vii) the expiry of any period referred to in paragraph (k) above, provided that in the case of paragraph (k)(i), all Options granted shall lapse upon the proposed compromise or arrangement becoming effective; and
- (viii) the date the Participant commits any breach of the provisions of paragraph (g).

(m) Ranking of Shares

Shares allotted and issued upon the exercise of an Option will be subject to our Articles as amended from time to time and will rank *pari passu* in all respects with the fully paid or credited as fully paid Shares in issue on the date of such allotment or issue and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date, of allotment and issue other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of allotment or issue.

(n) Cancellation of Options granted

Any cancellation of Options granted in accordance with the Share Option Scheme but not exercised must be approved by the grantee concerned in writing. In the event that our Board elects to cancel any Options and issue new ones to the same grantee, the issue of such new Options may only be made with available unissued Options (excluding the cancelled Options) within the Scheme Mandate Limit.

(o) Period of Share Option Scheme

The Share Option Scheme will be valid and effective for a period of ten years commencing on the Listing Date, after which period no further Options may be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects and Options granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

(p) Alteration to and termination of Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of our Board, except that (i) any alteration to the advantage of the Participants or the Eligible Persons (as the case may be) relating to matters contained in Chapter 23 of the GEM Listing Rules; and (ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of Options granted, except where the alterations take effect automatically under the existing terms of the Share Option Scheme, shall first be approved by the Shareholders in general meeting (with the Eligible Persons, the Participants and their respective close associates abstaining from voting) provided that if the proposed alteration shall adversely affect any Options granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the consent or sanction of the Participants in accordance with the terms of the Share Option Scheme.

Our Company may, by ordinary resolution in general meeting, at any time terminate the operation of the Share Option Scheme before the end of its life and in such event no further Options will be offered but the provisions of the Share Option Scheme shall remain in all other respects in full force and effect in respect of Options granted prior thereto but not yet exercised at the time of termination, which shall continue to be exercisable in accordance with their terms of grant. Details of the Options granted, including Options exercised or outstanding, under the Share Option Scheme, and (if applicable) Options that become void or non-exercisable as a result of termination must be disclosed in the circular to the Shareholders seeking approval for the first new scheme to be established after such termination.

(q) Granting of Options to a Director, chief executive or Substantial Shareholder of our Company or any of their associates

Where Options are proposed to be granted to a Director, chief executive or Substantial Shareholder of our Company or any of their respective associates, the proposed grant must be approved by all independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Options).

If a grant of Options to a Substantial Shareholder or an independent non-executive Director, or any of their respective associates will result in the total number of the Shares issued and to be issued upon exercise of the Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person under the Share Option Scheme or Other Schemes in any 12-month period up to and including the date of the grant (i) representing in aggregate 0.1% (or such other percentage as may from time to time specified by the Stock Exchange) of the Shares in issue from time to time, and (ii) having an aggregate value, based on the closing price of the Shares at the date of the grant, in excess of HK\$5 million, then the proposed grant of Options must be approved by the Shareholders. The Participant, his/her/its associates and all core connected persons of our Company

must abstain from voting at such general meeting. Our Company will send a circular to our Shareholders containing the information required under the GEM Listing Rules.

In addition, Shareholders' approval as described above will also be required for any change in terms of the Options granted to an Eligible Person who is a Substantial Shareholder, an independent non-executive Director or their respective associates.

The circular must contain the following:

- (i) details of the number and terms of the Options (including the subscription price relating thereto) to be granted to each Eligible Person, which must be fixed before the relevant Shareholders' meeting, and the date of Board meeting for proposing such further grant is to be taken as the date of grant for the purpose of calculating the subscription price;
- (ii) a recommendation from our independent non-executive Directors (excluding any independent non-executive Director who is a proposed grantee of the Options in question) to independent Shareholders, as to voting; and
- (iii) all other information as required by the GEM Listing Rules. For the avoidance of doubt, the requirements for the granting of Options to a Director or chief executive (as defined in the GEM Listing Rules) set out in this paragraph (q) do not apply where the Eligible Person is only a proposed Director or chief executive.

(r) Performance Target

The exercise of an Option may be subject to the achievement of performance target and/or any other conditions to be notified by our Board to each Participant, which our Board may in its absolute discretion determine.

(s) Conditions of Share Option Scheme

The Share Option Scheme is conditional on (i) the passing of the written resolution to adopt the Share Option Scheme by all our existing Shareholders in general meeting; and (ii) the Stock Exchange granting approval for the listing of and permission to deal in the Shares which may be issued pursuant to the exercise of Options.

As at the Latest Practicable Date, no options had been granted or agreed to be granted by our Company under the Share Option Scheme.

Application has been made to the Stock Exchange for the listing of and permission to deal in the Shares which fall to be issued pursuant to the exercise of Options granted under Share Option Scheme.

The terms of the Share Option Scheme are in compliance with Chapter 23 of the GEM Listing Rules.

E. OTHER INFORMATION

1. Tax and other indemnities

The Controlling Shareholders (the “**Indemnifiers**”) have entered into a deed of indemnity (“**Deed of Indemnity**”) (being a material contract referred to in the paragraph headed “Summary of material contracts” of this Appendix) to provide the following indemnities in favour of our Company (for itself and as trustee for its subsidiaries).

Under the Deed of Indemnity, each of the Indemnifiers irrevocably, jointly and severally agrees, covenants and undertakes with our Company (for itself and as trustee for each member of our Group) that he/it will indemnify our Company (for itself and as trustee for each member of our Group) against, amongst others, the following:

- (i) any liability to any form of taxation falling on any or all members of our Group resulting from or by reference to any income, profit or gains earned, accrued or received (or deemed to be so earned, accrued or received) or transactions, events, acts, omissions, matters or things entered into or occurring on or before the Listing Date;
- (ii) all necessary costs (including all legal costs), expenses, interests, penalties, damages, losses or other liabilities incurred by any members of our Group due to any litigation, arbitration and/or legal proceedings (including without limitation any court proceeding, administrative proceedings or other proceedings commenced or instituted by any regulatory body or governmental department) against any member of our Group in relation to, arising out of or in connection with any cause of action, subject matter, dispute or breach, infringement or contravention of any law, regulation, legal right or proprietary right (whether intellectual, property or otherwise) that are issued or accrued occurred in anywhere in the world on or before the Listing Date;
- (iii) all relocation fees, costs and any loss suffered or incurred by any member of our Group in the event that we cannot continue to use certain leased properties before the expiration of the current term of the tenancy/lease/licence due to the denial of the ownership titles of the relevant landlords or is otherwise prohibited from using or occupying any of such properties, on or before the Listing Date;
- (iv) all claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines suffered or incurred by any member of our Group arising from the non-compliance by any member of our Group with any laws, regulations or administrative orders or measures, on or before the Listing Date; and

- (v) any liabilities arising from the non-compliance with applicable laws and regulations on or before the Listing Date.

The Indemnifiers will, however, not be liable under the Deed of Indemnity for taxation where, among others:

- (a) to the extent that provision, reserve or allowance has been made for such taxation in the audited accounts of our Group for the two years ended 31 March 2017 and the nine months ended 31 December 2017 (“**Accounts**”); or
- (b) falling on any member of our Group in respect of any period commencing on day immediately after the date on which the Deed of Indemnity becomes unconditional unless liability for such taxation would not have arisen but for any act or omission of, or transaction by any member of our Group voluntarily effected (other than pursuant to a legally binding commitment created on or before the date on which the Deed of Indemnity becomes unconditional) without prior written consent or agreement of Indemnifiers; or
- (c) to the extent that such taxation arises or is incurred as a result of any change in the law having retrospective effect coming into force after the date on which the Deed of Indemnity becomes unconditional or to the extent that such taxation arises or is increased by an increase in rates of taxation after the date on which the Deed of Indemnity becomes unconditional with retrospective effect (except the imposition of or an increase in the rate of Hong Kong profits tax or any tax of anywhere else in the world on the profits of companies for the current or any earlier financial period); or
- (d) to the extent that any provision or reserve made for such taxation in the Accounts is established to be an over-provision or an excessive reserve.

The Indemnifiers will not be liable in respect of the liabilities arising from the non-compliance with laws and regulations which are promulgated or amended after the Listing Date.

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of its subsidiaries in the Cayman Islands, the BVI, Hong Kong or United States, being jurisdictions in which one or more of the companies comprising our Group were incorporated.

2. Litigation

Neither our Company nor any of our subsidiaries is engaged in any litigation or claims of material importance and no litigation or claims of material importance is known to our Directors to be pending or threatened against our Company or any of our subsidiaries.

3. Sponsor

The Sponsor has made an application for and on behalf of our Company to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, including the Offer Shares and any Shares which may fall to be allotted and issued pursuant to the Capitalisation Issue and the exercise of any options which may be granted under the Share Option Scheme. The Sponsor is independent from our Company pursuant to Rule 6A.07 of the GEM Listing Rules. The Sponsor is entitled to sponsors' fee in the amount of HK\$4.3 million.

4. Compliance adviser

In accordance with the requirements of the GEM Listing Rules, our Company will appoint Ample Capital Limited as its compliance adviser to provide advisory services to our Company to ensure compliance with the GEM Listing Rules for a period commencing on the Listing Date and ending on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full year commencing after the Listing Date or until the agreement is terminated, whichever is the earlier.

5. Preliminary expenses

The preliminary expenses relating to the incorporation of our Company are approximately HK\$69,540 which has been paid by our Company.

6. Promoters

Our Company has no promoter.

7. Qualifications of experts

The qualifications of the experts who have given reports, letter or opinions (as the case may be) in this prospectus are as follows:

Name	Qualification
Ample Capital Limited	Licensed corporation to engage in type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
Appleby	Cayman Islands attorneys-at-law
Frost & Sullivan International Limited	Industry consultant
KPMG	Certified public accountants
Ms. Queenie W.S. Ng	Barrister-at-law of Hong Kong
BMI Appraisals Limited	Property valuer

8. Consents of experts

Each of the experts referred to above has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its reports, letters, opinions or summaries of opinions (as the case may be) and the references to its name included in this prospectus the form and context in which it respectively appears.

9. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penalty provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

10. Hong Kong branch share registrar

Our Company's branch register of members will be maintained in Hong Kong by its Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited. Unless our Directors otherwise agree, all transfers and other documents of title to shares must be lodged for registration with and registered by the Hong Kong branch share registrar and transfer office in Hong Kong.

11. Miscellaneous

- (a) Save as disclosed in this prospectus, within the two years preceding the date of this prospectus:
 - (i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of our Company or any of our subsidiaries; and
 - (iii) no commission has been paid or payable (excluding commission payable to sub-underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares in our Company.
- (b) No share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.
- (c) No founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued.
- (d) Our Directors confirm that, up to the date of this prospectus, save as disclosed in the paragraph headed "Financial Information — No material adverse change" in this prospectus, there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2017 (being the date to which the latest audited consolidated financial statements of our Group were made up).
- (e) There has not been any interruption in the business of our Group which has had a material adverse effect on the financial position of our Group in the 24 months preceding the date of this prospectus.

- (f) None of Ample Capital Limited, Appleby, BMI Appraisals Limited, Frost & Sullivan, KPMG and Ms. Queenie W.S. Ng:
 - (i) is interested beneficially or non-beneficially in any shares in any member of our Group; or
 - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of our Group.
- (g) No company within our Group is presently listed on any stock exchange or traded on any trading system.
- (h) Our Company has no outstanding convertible debt securities.
- (i) All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.
- (j) There are no arrangements under which future dividends are waived or agreed to be waived.

12. Bilingual Prospectus

Pursuant to Rule 14.25 of the GEM Listing Rules and section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), the English language and Chinese language versions of this prospectus are being published separately but are available to the public at the same time as each place where this prospectus is distributed by or on behalf of our Company.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

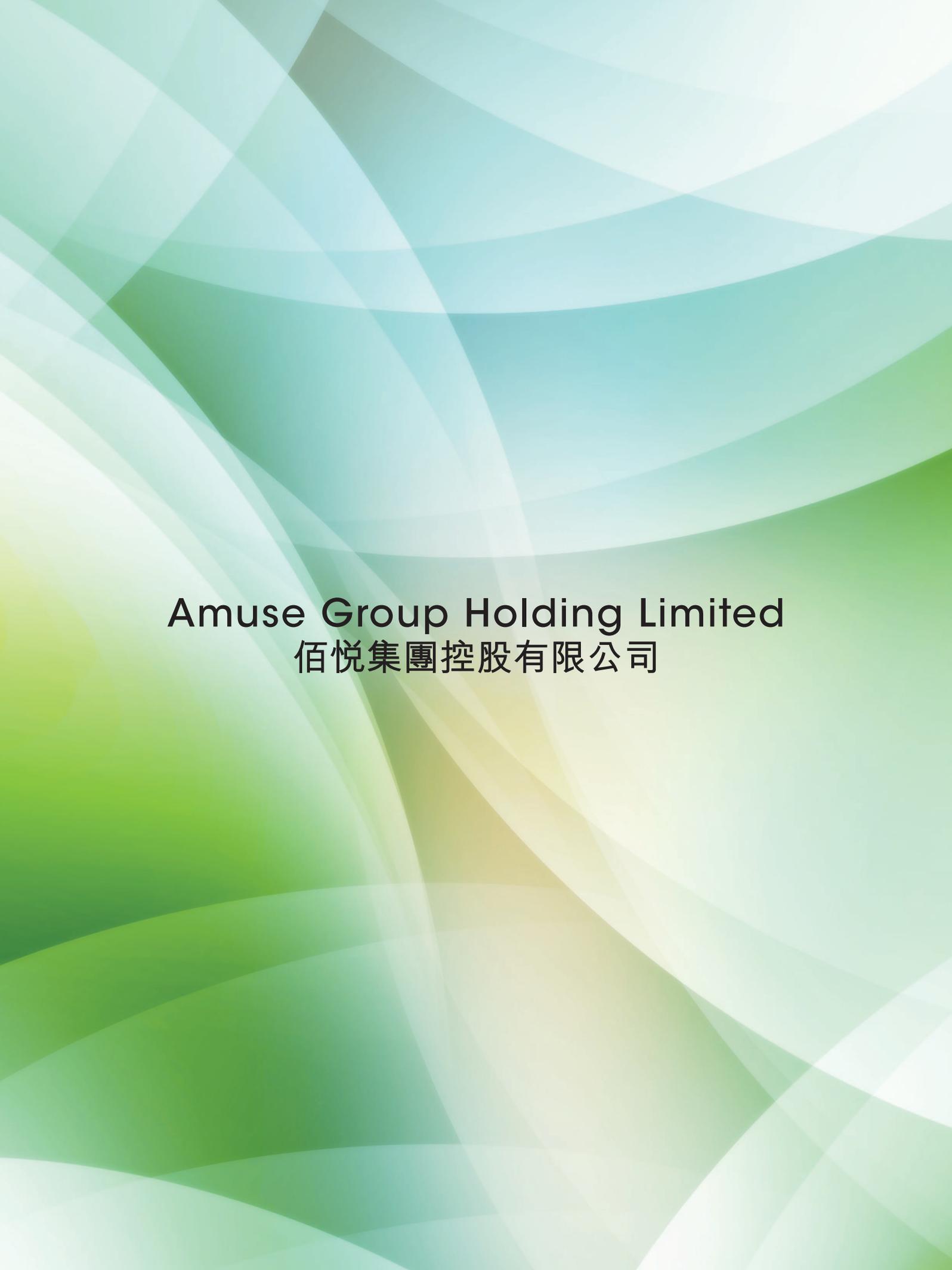
- (i) a copy of each of the **WHITE** and **YELLOW** Application Forms;
- (ii) the written consents referred to in the paragraph headed “Statutory and General Information — E. Other information — 8. Consents of experts” in Appendix VI to this prospectus; and
- (iii) a copy of each of the material contracts referred to in the paragraph headed “Statutory and General Information — B. Further information about the business of our Group — 1. Summary of material contracts” in Appendix VI to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Stevenson, Wong & Co., at 39/F, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus;

- (1) the Memorandum and the Articles;
- (2) the report issued by KPMG in respect of the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this prospectus;
- (3) the accountants’ report of our Group issued by KPMG, the text of which is set forth in Appendix I to this prospectus;
- (4) the letters from Ample Capital and KPMG relating to the profit estimate, the text of which are set out in Appendix III to this prospectus;
- (5) the letter, summary of values and valuation certificates relating to the property interests held by our Group prepared by BMI Appraisals Limited, the text of which is set out in Appendix IV to this prospectus;
- (6) the letter of advice prepared by Appleby, summarizing certain aspects of the Cayman Islands company law referred to in Appendix V to this prospectus;
- (7) the Companies Law;
- (8) the material contracts referred to in the paragraph headed “Statutory and General Information — B. Further information about the business of our Group — 1. Summary of material contracts” in Appendix VI to this prospectus;

- (9) the service contracts and letters of appointment referred to in the paragraph headed “Statutory and General Information — C. Further information about Directors, senior management and staff — 1. Directors — (b) Particulars of service contracts” in Appendix VI to this prospectus;
- (10) the rules of the Share Option Scheme referred to in the paragraph headed “Share Option Scheme” in Appendix VI to this prospectus;
- (11) the written consents referred to in the paragraph headed “Statutory and General Information — E. Other information — 8. Consents of experts” in Appendix VI to this prospectus;
- (12) the legal opinion issued by Ms. Queenie W.S. Ng as to certain aspects of Hong Kong law relating to certain non-compliances of our Group; and
- (13) the F&S Report.



Amuse Group Holding Limited
佰悦集團控股有限公司