KIDZTECH HOLDINGS LIMITED

奇士達控股有限公司

(Incorporated in the Cayman Islands with limited liability)
STOCK CODE: 6918

GLOBAL OFFERING

Sole Sponsor

CMBC CAPITAL

Sole Global Coordinator

民銀證券
CMBC SECURITIES COMPANY LIMITED

IMPORTANT

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

Kidztech Holdings Limited
奇士達控股有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	**:**	**88,400,000 Shares (subject to the Adjustment Options)**
Number of Hong Kong Offer Shares	**:**	**8,840,000 Shares (subject to readjustment)**
Number of International Offer Shares	**:**	**79,560,000 Shares (subject to readjustment and the Adjustment Options)**
Offer Price (subject to a Downward Offer Price Adjustment)	**:**	**Not more than HK$1.47 per Offer Share and expected to be not less than HK$1.17 per Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund) (if the Offer Price is set at 10% below the bottom end of the indicative Offer Price range after making a Downward Offer Price Adjustment, the Offer Price will be HK$1.05 per Offer Share)**
Nominal value	**:**	**HK$0.001 per Share**
Stock code	**:**	**6918**

Sole Sponsor

CMBC CAPITAL

Sole Global Coordinator

民銀證券 CMBC SECURITIES COMPANY LIMITED

Joint Bookrunners and Joint Lead Managers

民銀證券 CMBC SECURITIES COMPANY LIMITED | 光銀國際 CEB International | 交銀國際 BOCOM INTERNATIONAL | 海通國際 HAITONG

山證國際 SHANXI SECURITIES INTERNATIONAL | 千里碩 ELSTONE | 中國通海證券 CHINA TONGHAI SECURITIES | 港利資本 GLAM Capital

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

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

The Offer Price is expected to be determined by agreement between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on the Price Determination Date or such later date as mutually agreed by our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) but in any event no later than Monday, 16 March 2020. The Offer Price will be not more than HK$1.47 per Offer Share and is expected to be not less than HK$1.17 per Offer Share (subject to a Downward Offer Price Adjustment), unless otherwise announced.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, with our Company's consent, reduce the indicative Offer Price range stated in this prospectus and/or the number of Offer Shares being offered at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. A notice of the reduction of the indicative Offer Price range and/or the number of Offer Shares will be available at the website of the Stock Exchange at **www.hkexnews.hk** and our website at **www.kidztech.net**. Further details are set out in sections headed "Structure and conditions of the Global Offering" and "How to apply for the Hong Kong Offer Shares" in this prospectus.

If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on or before Monday, 16 March 2020, the Global Offering will not become unconditional and will lapse immediately.

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 section headed "Risk factors" in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in the sub-paragraph headed "Grounds for termination" under the paragraph headed "Underwriting arrangements and expenses" under the section headed "Underwriting" in this prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons, except that Offer Shares may be offered, sold or delivered (i) to Qualified Institutional Buyers in reliance on an exemption from registration under the U.S. Securities Act provided by, and in accordance with the restrictions of, Rule 144A, or another available exemption from registration under the U.S. Securities Act; and (ii) outside the United States in accordance with Regulation S.

28 February 2020

	Time[1]
Hong Kong Public Offering commences and **WHITE** and **YELLOW** Application Forms available from	9:00 a.m. on Friday, 28 February 2020
Latest time for completing electronic applications under **HK eIPO White Form** service through one of the below ways[2]	11:30 a.m. on Wednesday, 4 March 2020

(1) the designated website **www.hkeipo.hk**

(2) the IPO App, which can be downloaded by searching "**IPO App**" in App Store or Google Play or downloaded at **www.hkeipo.hk/IPOApp** or **www.tricorglobal.com/IPOApp**

Application lists open[3]	11:45 a.m. on Wednesday, 4 March 2020
Latest time for lodging **WHITE** and **YELLOW** Application Forms	12:00 noon on Wednesday, 4 March 2020
Latest time for completing payment of **HK eIPO White Form** applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Wednesday, 4 March 2020
Latest time for giving **electronic application instructions** to HKSCC[4]	12:00 noon on Wednesday, 4 March 2020
Application lists of the Hong Kong Public Offering close[3]	12:00 noon on Wednesday, 4 March 2020
Expected Price Determination Date[5]	Monday, 9 March 2020
Where applicable, announcement of the Offer Price being set below the bottom end of the indicative Offer Price range after making a Downward Offer Price Adjustment (please refer to the paragraph headed "Determining the Offer Price" under the section headed "Structure and conditions of the Global Offering" in this prospectus) on the website of the Stock Exchange at **www.hkexnews.hk** and the website of our Company at **www.kidztech.net** on or before	Tuesday, 17 March 2020

	Time[1]
Announcement of the Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares to be published (a) in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and (b) on the website of the Stock Exchange at **www.hkexnews.hk** and the website of our Company at **www.kidztech.net**[6]	Tuesday, 17 March 2020
Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document or business registration numbers, where appropriate) to be available through a variety of channels, including the website of the Stock Exchange at **www.hkexnews.hk**, the website of our Company at **www.kidztech.net**, the Hong Kong Public Offering allocation results telephone enquiry line and the special allocation results booklets as described in the paragraph headed "11. Publication of results" under the section headed "How to apply for the Hong Kong Offer Shares" in this prospectus	Tuesday, 17 March 2020
Results of allocations in the Hong Kong Public Offering will be available at **www.tricor.com.hk/ipo/result** (or **www.hkeipo.hk/IPOResult**) or "Allotment Result" in the IPO App with a "search by ID Number/Business Registration Number" function from	Tuesday, 17 March 2020
Despatch/Collection of share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before[7–9] [12]	Tuesday, 17 March 2020
Despatch/Collection of HK eIPO White Form e-Auto Refund payment instructions and refund cheque in respect of wholly successful (where applicable) or wholly or partially successful applications will be despatched on or before[6][8–12]	Tuesday, 17 March 2020
Dealings in the Shares on the Stock Exchange to commence at	9:00 a.m. on Wednesday, 18 March 2020

Notes:

(1) All times refer to Hong Kong local time, except as otherwise stated.

(2) You will not be permitted to submit your **HK eIPO White Form** application through the designated website at **www.hkeipo.hk** or the IPO App after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an payment reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(3) If there is a tropical cyclone warning signal number 8 or above or an announcement of "extreme conditions" by the Government of Hong Kong in accordance with the revised "Code of Practice in Times of Typhoon and Rainstorms" issued by the Hong Kong Labour Department in June 2019 and/or a "black" rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 4 March 2020, the application lists will not open or close on that day. Further information is set out in the paragraph headed "10. Effect of bad weather and/or extreme conditions on the opening of the application lists" under the section headed "How to apply for the Hong Kong Offer Shares" in this prospectus. If the application lists do not open and close on Wednesday, 4 March 2020, the dates mentioned in this section may be affected. An announcement will be made by us in such event.

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

(5) The Price Determination Date is expected to be on or around Monday, 9 March 2020 and, in any event, not later than Monday, 16 March 2020. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us by Monday, 16 March 2020, the Global Offering will not proceed and will lapse.

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

(7) Share certificates will only become valid at 8:00 a.m. on Wednesday, 18 March 2020 provided that the Global Offering has become unconditional in all respects and the right of termination described in the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk. If the Global Offering does not become unconditional or the Underwriting Agreements are terminated in accordance with their terms, the Global Offering will not proceed. In such a case, our Company will make an announcement as soon as possible thereafter.

(8) Applicants who have applied on **WHITE** Application Forms or through the **HK eIPO White Form** service through the designated website **www.hkeipo.hk** or the IPO App for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by the Application Form may collect any refund cheques and/or share certificates in person from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 17 March 2020 or such other date as notified by our Company in the newspapers as the date of despatch/collection of share certificates/e-Auto refund payment instructions/refund cheques. Applicants being individuals who are eligible for personal collection must not authorise any other person to collect on their behalf. Applicants being corporations which are eligible for personal collection must attend through their authorised representatives bearing letters of authorisation from their corporation stamped with the corporation's chop. Both individuals and authorised representatives of corporations must produce evidence of identity acceptable to our Hong Kong Branch Share Registrar at the time of collection.

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

(10) For applicants who have applied for Hong Kong Offer Shares by giving **electronic application instructions**, their refund (if any) will be credited to their designated bank account or the designated bank account of the designated CCASS Participant through which they made their application on Tuesday, 17 March 2020. For applicants who have instructed their designated CCASS Participant (other than CCASS Investor Participant) to give **electronic application instructions** on their behalf, they can check the amount of refund (if any) payable to them with that designated CCASS Participant. For applicants who have applied as CCASS Investor Participant, they can check the amount of refund (if any) payable to them via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, 17 March 2020 or in the activity statement showing the amount of refund money credited to their designated bank account made available to them by HKSCC immediately after the credit of refund money to their bank account. Please refer to the paragraph headed "14. Despatch/collection of share certificates and refund of monies" under the section headed "How to apply for the Hong Kong Offer Shares" in this prospectus for details.

(11) Applicants who have applied through the **HK eIPO White Form** service and paid their applications monies through single bank accounts may have refund monies (if any) despatched to that bank account in the form of e-Auto refund payment instructions on Tuesday, 17 March 2020. Applicants who have applied through the **HK eIPO White Form** service and paid their application monies through multiple bank accounts may have refund monies (if any) despatched to the address as specified in their application instructions in the form of refund cheques on Tuesday, 17 March 2020 by ordinary post at their own risk.

(12) Uncollected share certificate(s) and refund cheque(s) will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant applications. Further details are set out in the paragraph headed "14. Despatch/collection of share certificates and refund of monies" under the section headed "How to apply for the Hong Kong Offer Shares" in this prospectus.

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

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company, solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to buy in any other jurisdictions or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in other jurisdictions and the offering and sale of the Offer Shares in other jurisdictions may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom. You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not included in this prospectus must not be relied on by you as having been authorised by us, any of our Directors, affiliates, advisers, agents or representatives or any person or party involved in the Global Offering. Information contained in our website, located at ***www.kidztech.net****, does not form part of this prospectus.*

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

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

OVERVIEW

We have a vision of becoming a smart interactive entertainment product provider. We principally design, develop, manufacture and sell high quality smart toy vehicles, smart interactive toys and traditional toys. Both the toy manufacturing industry and smart toy vehicle manufacturing industry of the PRC are highly fragmented. According to the CIC Report, we ranked ninth in the domestic toy manufacturing market in the PRC in terms of sales revenue for 2018, with the market share of approximately 0.1%. According to the CIC Report, in terms of sales revenue in the toy vehicle manufacturing industry and the smart toy vehicle manufacturing industry in the PRC in 2018, we have a market share of 0.8% and 1.4% respectively, being second among the industry players, and are also the largest non-listed private company in both markets. In addition, we are the only player among the top 10 domestic toy manufacturers that manufactures with full ICTI certification on OBM, ODM and OEM bases in 2018. We also commenced selling smart hardware during the Track Record Period.

We focus on overseas market and we sell our products to overseas customers directly and through the PRC Export-Oriented Wholesalers. Our retail customers mainly comprise large scale and reputable multinational and national retailers operating mass market retail chain stores, including both comprehensive retailers and toy specialty retailers. According to the CIC Report, major comprehensive retailers include Walmart, Auchan, Argos, ASDA and Target, and major comprehensive toy specialty retailers include Toys 'R' Us, Hamleys, Ludendo and Smyths. We also sell our products to wholesalers, mainly including (i) overseas wholesalers; and (ii) the PRC Export-Oriented Wholesalers. In addition, we sell our products to PRC retailers, PRC Domestic-Sale-Oriented Wholesalers, and overseas customers which engage us to manufacture on ODM and OEM bases, including Dickie. Our products are (i) branded with our "kidztech" brand; (ii) co-branded with (aa) renowned automobile manufacturers, (bb) popular entertainment characters featured in animated television series or motion pictures or (cc) toy brand owner; and (iii) branded under our overseas customers' brands, which mainly represent the products we manufacture on ODM and OEM bases and the products sold to our customers branded under their respective brands.

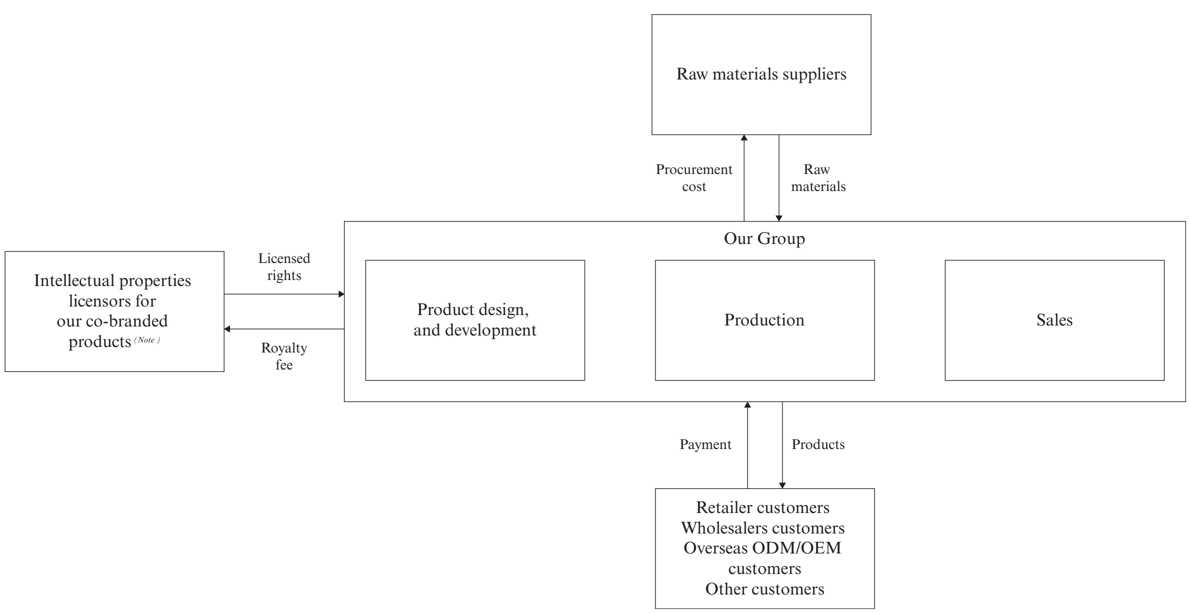
We have developed our "kidztech" brand since 2011, which we believe have gained its reputation for its high quality and creative design of our products over the years. We also sold our smart toy vehicles under our sub-brands, such as "TOPMAZ".

We have strong capability in product innovation and design through undertaking design and development of products in-house in all our Hong Kong, Shenzhen and Guangdong operations. The synergy between our Hong Kong and PRC operations has enabled us to possess vertically integrated design, development, manufacturing and sale capability which allows us to conduct most of our operations in-house and sell our high quality and high cost-performance products to both overseas and PRC customers.

We adopt a global licensing strategy to acquire licensed rights from reputable automobile manufacturers. Our products are co-branded with such automobile manufacturers so as to leverage on the marketing benefits of the internationally renowned automobile brands to expediently gain consumer awareness, recognition of authenticity and establish creditability and market acceptance from the mass market. As at the Latest Practicable Date, we had been granted licensed rights of renowned automobile brands under more than 20 licensing agreements with certain luxury vehicle brands. According to the CIC Report, luxury vehicle brands include Bugatti, Lamborghini, Pagani, Mclaren, Lykan Hypersport, Audi and Mercedes-Benz. As our co-branded toy vehicles have been well accepted in the overseas market, the Famous Toy Brand Licensor as well as entertainment character licensors, including the Famous Entertainment Character Licensor, subsequently initiated to grant us licensed rights of renowned toy brand and entertainment characters. As at the Latest Practicable Date, we had been granted licensed rights of a reputable toy brand from the Famous Toy Brand Licensor and five entertainment characters, including a common licensed entertainment character from the Famous Entertainment Character Licensor.

OUR BUSINESS MODEL

The following diagram illustrates our business model:



Note: Not applicable for our products that are branded with our "kidztech" brand and our overseas customers' brands.

KEY FINANCIAL AND OPERATIONAL DATA

The following tables set out selected financial and operational data from our selected combined financial information for the years/periods indicated. For further details, please refer to the section headed "Financial information" in this prospectus.

Selected information from combined statements of comprehensive income

	For the year ended 31 December			For the eight months ended 31 August	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Revenue	214,025	259,185	278,717	149,380	210,240
Gross profit	84,783	92,420	95,607	50,693	78,493
Profit for the year/period	33,445	36,087	32,753	11,274	27,750

Non-HKFRS measures — Reconciliation

In order to supplement our combined statements of profit or loss, which are presented in accordance with HKFRS, we also use adjusted net profit as an additional financial measure, which is not required by, or presented in accordance with HKFRS. We believe that these non-HKFRS measures help identify underlying trends in our business that could otherwise be distorted by the effect of the expenses that we include in income from operations and net profit, and therefore provide useful information to investors and others in understanding and evaluating our results of operation by eliminating potential impacts of items that our management does not consider to be indicative of our operating performance, which is in the same manner as the action of our management when comparing financial results across accounting periods. We also believe that these non-HKFRS measures provide useful information about our operating results, enhance the overall understanding of our past performance and future prospects and allow for greater visibility with respect to key metrics used by our management in its financial and operational decision-making. Please refer to the paragraph headed "Non-HKFRS measures" under the section headed "Financial information" in this prospectus for further details.

The following tables set forth the reconciliations of our non-HKFRS financial measures, net of tax effects on the adjustments, for the periods indicated, to the nearest measures prepared in accordance with HKFRS:

	For the year ended 31 December			For the eight months ended 31 August	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Profit for the year/period	33,445	36,087	32,753	11,274	27,750
Add:					
Listing expenses *(Note 1)*	—	—	—	—	8,578
Less:					
Compensation in relation to breach of contract regarding acquisition of land and factory *(Note 2)*	—	(5,215)	—	—	—
Gains on disposal of a subsidiary *(Note 3)*	—	—	—	—	(4,804)
Net of tax effect *(Note 4)*	—	782	—	—	1,201
Adjusted net profit *(Note 5)*	33,445	31,654	32,753	11,274	32,725

Notes:

1. Our expenses incurred for Listing is non-recurring as it is derived from a one-off event.

2. Compensation in relation to breach of contract regarding acquisition of land and factory is non-recurring as it is derived from a one-off event.

3. Disposal of a subsidiary is a one-off event and such gain is non-recurring in nature.

4. Included tax effect on listing expenses which is non-recurring in nature.

5. These are calculated based on non-HKFRS measures. We define adjusted net profit as profit for the year/period adjusted by listing expenses, compensation in relation to breach of contract regarding acquisition of land and factory and gains on disposal of a subsidiary and net of their respective tax effects.

Summary of combined statements of financial position

	As at 31 December			As at 31 August
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current assets	126,410	272,517	330,424	304,829
Current liabilities	101,091	130,082	196,565	212,504
Net current assets	25,319	142,435	133,859	92,325
Non-current assets	130,834	204,257	240,256	208,441
Non-current liabilities	6,497	8,981	7,934	7,551
Total equity	149,656	337,711	366,181	293,215

Our Group's net current assets decreased from approximately RMB133.9 million as at 31 December 2018 to approximately RMB92.3 million as at 31 August 2019, and our Group's total equity decreased from approximately RMB366.2 million as at 31 December 2018 to approximately RMB293.2 million as at 31 August 2019, mainly attributable to the payment of dividend of approximately RMB101.4 million by one of our subsidiaries to its then shareholders in May 2019.

Summary of segment data

Revenue by product type

	For the year ended 31 December						For the eight months ended 31 August			
	2016		2017		2018		2018		2019	
	Revenue RMB'000	*%*	*Revenue RMB'000*	*%*	*Revenue RMB'000*	*%*	*Revenue RMB'000 (unaudited)*	*%*	*Revenue RMB'000*	*%*
Smart toys										
— Smart toy vehicles	171,967	80.4	219,220	84.6	218,120	78.3	119,440	80.0	135,617	64.5
— Smart interactive toys	22,753	10.6	15,555	6.0	19,659	7.0	9,943	6.7	19,381	9.2
Sub-total:	194,720	91.0	234,775	90.6	237,779	85.3	129,383	86.7	154,998	73.7
Traditional toys *(Note)*	19,305	9.0	24,410	9.4	34,500	12.4	16,646	11.1	52,182	24.8
Smart hardware	—	—	—	—	6,438	2.3	3,351	2.2	3,060	1.5
Total	214,025	100.0	259,185	100.0	278,717	100.0	149,380	100.0	210,240	100.0

Note: Approximately RMB17.8 million, RMB24.4 million, RMB34.5 million, RMB16.6 million and RMB50.3 million are derived from sale of traditional toy vehicles during the year ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2018 and 2019, respectively.

Revenue by brand

	For the year ended 31 December						For the eight months ended 31 August			
	2016		2017		2018		2018		2019	
	Revenue RMB'000	*%*	*Revenue RMB'000*	*%*	*Revenue RMB'000*	*%*	*Revenue RMB'000 (unaudited)*	*%*	*Revenue RMB'000*	*%*
"kidztech" brand	80,367	37.5	80,852	31.2	144,572	51.8	72,960	48.9	103,517	49.2
Co-brand	113,971	53.3	114,104	44.0	111,641	40.1	64,598	43.2	89,300	42.5
Overseas customers' brands *(Note)*	19,687	9.2	64,229	24.8	22,504	8.1	11,822	7.9	17,423	8.3
Total	214,025	100.0	259,185	100.0	278,717	100.0	149,380	100.0	210,240	100.0

Note: Mainly represent overseas customers which engaged us on ODM and OEM bases and customers which we sold our products branded under their respective brands.

Revenue by customer type

	For the year ended 31 December						For the eight months ended 31 August			
	2016		2017		2018		2018		2019	
	Revenue RMB'000	*%*	*Revenue RMB'000*	*%*	*Revenue RMB'000*	*%*	*Revenue RMB'000 (unaudited)*	*%*	*Revenue RMB'000*	*%*
Retailers										
— Overseas retailers	127,249	59.5	105,597	40.7	98,798	35.4	58,478	39.2	77,423	36.8
— PRC retailers	14,950	7.0	15,897	6.2	39,525	14.2	23,183	15.5	22,668	10.8
Sub-total:	142,199	66.5	121,494	46.9	138,323	49.6	81,661	54.7	100,091	47.6
Wholesalers										
— Overseas wholesalers	13,892	6.5	10,873	4.2	14,395	5.2	8,260	5.5	14,456	6.9
— PRC Export-Oriented Wholesalers	37,871	17.7	55,958	21.6	83,759	30.1	40,150	26.9	77,592	36.9
— PRC Domestic-Sale-Oriented Wholesalers	1,959	0.9	8,089	3.1	19,368	6.9	8,426	5.6	9,292	4.4
Sub-total:	53,722	25.1	74,920	28.9	117,522	42.2	56,836	38.0	101,340	48.2
Overseas ODM and OEM customers	16,733	7.8	62,768	24.2	20,626	7.4	10,725	7.2	8,356	4.0
Others *(Note)*	1,371	0.6	3	0.0	2,246	0.8	158	0.1	453	0.2
Total	214,025	100.0	259,185	100.0	278,717	100.0	149,380	100.0	210,240	100.0

Note: Others mainly represent companies engaging in various kinds of businesses, including kids-related businesses, which to the best of our Directors' knowledge and belief, purchased our products as ancillary gifts to their customers.

Revenue by geographical regions

	For the year ended 31 December						For the eight months ended 31 August			
	2016		2017		2018		2018		2019	
	Revenue RMB'000	*%*	*Revenue RMB'000*	*%*	*Revenue RMB'000*	*%*	*Revenue RMB'000 (unaudited)*	*%*	*Revenue RMB'000*	*%*
North America *(Note 1)*	65,355	30.5	64,210	24.8	55,815	20.0	32,876	22.0	54,912	26.1
Europe *(Note 2)*	68,707	32.1	86,896	33.5	56,632	20.3	28,412	19.0	35,808	17.0
PRC *(Note 3)*	56,151	26.2	79,947	30.8	144,898	52.0	71,918	48.1	110,005	52.3
Asia, excluding the PRC	10,791	5.0	17,940	6.9	11,710	4.2	7,312	4.9	3,524	1.7
Others *(Note 4)*	13,021	6.2	10,192	4.0	9,662	3.5	8,862	6.0	5,991	2.9
Total	214,025	100.0	259,185	100.0	278,717	100.0	149,380	100.0	210,240	100.0

Notes:

1. Sale to the U.S. accounted for approximately 23.0%, 18.4%, 15.7% and 21.5% of our total revenue during the Track Record Period, respectively. Our business may be affected by any country's trade policy, for example the imposition of additional ad valorem duty on goods exported from the PRC to the US as a result of Sino-US trade war. For further details, please refer to the sub-paragraph headed "The Sino-US trade war may affect our business, financial conditions and results of operation" under the paragraph headed "Risks relating to our business" under the section headed "Risk factors" in this prospectus.

2. Sale to the U.K. accounted for approximately 8.0%, 7.4%, 3.7% and 4.1% of our total revenue during the Track Record Period, respectively. Our business may be affected by any changes in political conditions. For further details, please refer to the sub-paragraph headed "Brexit may have adverse consequences for our business, financial condition, operating results and our ability to implement our growth strategies" under the paragraph headed "Risks relating to our business" under the section headed "Risk factors" in this prospectus.

3. Approximately RMB37.9 million, RMB56.0 million, RMB83.8 million and RMB77.6 million of our total revenue were derived from our sales to PRC Export-Oriented Wholesalers during the Track Record Period, respectively.

4. Others include Oceania, South America and Africa.

Key financial ratios *(Note 1)*

	For the year ended/as at 31 December			For the eight months ended/ as at 31 August
	2016	**2017**	**2018**	**2019**
Gross profit margin	39.6%	35.7%	34.3%	37.3%
Net profit margin	15.6%	13.9%	11.8%	13.2%
Adjusted net profit margin *(Note 2)*	15.6%	12.2%	11.8%	15.6%
Return on equity	22.3%	10.7%	8.9%	N/A(*)
Return on total asset	13.0%	7.6%	5.7%	N/A(*)
Current ratio	1.3	2.1	1.7	1.4
Quick ratio	1.0	1.8	1.5	1.2
Gearing ratio	35.9%	28.6%	39.7%	48.0%
Net debt to equity ratio	15.2%	N/A(#)	N/A(#)	10.2%
Interest coverage ratio	11.4 times	9.5 times	6.2 times	7.0 times

Notes:

1. Calculation of the key financial ratios is set out in the paragraph headed "Key financial ratios" under the section headed "Financial information" in this prospectus.

2. These are calculated based on non-HKFRS measures. For the reconciliations of our non-HKFRS financial measures, please refer to the sub-paragraph headed "Reconciliation" under the paragraph headed "Non-HKFRS measures" under the section headed "Financial information" in this prospectus.

The figure is not meaningful as it recorded net cash at the end of the respective year.

* The figure for the eight months ended 31 August 2019 is not meaningful as it is not comparable to the annual figures.

Financial performance during the Track Record Period

Revenue

Our total revenue increased by approximately 21.1% from approximately RMB214.0 million for the year ended 31 December 2016 to approximately RMB259.2 million for the year ended 31 December 2017, primarily due to the increase in sale to Dickie by approximately RMB50.3 million in 2017, especially for the sale of smart toy vehicle. Dickie engaged us to manufacture a kind of smart toy vehicle featuring certain characters of a motion picture related to cars which was particularly popular in 2017.

Our total revenue increased by approximately RMB19.5 million, or approximately 7.5%, from approximately RMB259.2 million for the year ended 31 December 2017 to approximately RMB278.7 million for the year ended 31 December 2018, primarily due to (i) the increase in sale of traditional toys by RMB10.1 million which mainly comprised pull back traditional toy vehicles and inertia toy vehicles, which were mainly sold to PRC Export-Oriented Wholesalers and PRC retailers. There was an overall increase in our production capacity during the year ended 31 December 2017 and 2018, thereby enabling us to utilise some of our production capacity to produce traditional toys. To the best of our Directors' knowledge, information and belief, our potential customers had been expressing their interests in our traditional toys, while our Group could not accommodate some of those customers' orders until our production capacity had increased; (ii) increase in sale of smart interactive toys by approximately RMB4.1 million from 2017 to 2018; and (iii) the commencement of our sale of smart hardware with sales of approximately RMB6.4 million, such as Bluetooth speakers and smart watches for children, in 2018.

Our total revenue increased by approximately 40.7% from approximately RMB149.4 million for the eight months ended 31 August 2018 to approximately RMB210.2 million for the eight months ended 31 August 2019. Such increase was primarily due to (i) the increase in sale to one of our major overseas retailer customers by approximately RMB22.1 million, of which (a) approximately RMB14.8 million were contributed from the increase in the sale of our co-branded smart toy vehicles; and (b) approximately RMB7.3 million were contributed from the increase in sale of our smart interactive toys branded under the brand of the Renowned Multinational Retailer; (ii) the increase in sale of our smart interactive toys primarily due to the increase in sale of our co-branded products branded under the brand of the Famous Toy Brand Licensor, such as electronic piano, walkie-talkie and toy guitar; and (iii) the increase in sale of traditional toys to our customers in the PRC, in particular PRC Export-Oriented Wholesalers, during the eight months ended 31 August 2019. According to the CIC Report, the global toy market is expected to grow steadily from 2019 to 2023 since other retailers such as Walmart has taken over the market share of Toys 'R' Us, while the toy export value of the PRC increased by approximately 23.7% in the first half of 2019, as compared to the same period last year.

Gross profit and gross profit margin

Our gross profit increased from approximately RMB84.8 million for the year ended 31 December 2016 to approximately RMB92.4 million for the year ended 31 December 2017, representing an increase of approximately 9.0%. Our gross profit margin decreased from approximately 39.6% for the year ended 31 December 2016 to approximately 35.7% for the year ended 31 December 2017. The decrease was mainly attributable to (i) the increase in purchases of moulds and machinery resulting in the increase in additional depreciation expenses; (ii) the decrease in gross profit margin of retailer customers mainly due to the decrease in our sale to the Renowned Toy Specialty Retailer US and the Renowned Toy Specialty Retailer Netherlands as a result of the Retailer's Liquidation; and (iii) the increase in proportion of sale of our products to PRC customers in 2017 with lower profit margin.

Our gross profit increased from approximately RMB92.4 million for the year ended 31 December 2017 to approximately RMB95.6 million for the year ended 31 December 2018, representing an increase of approximately 3.5%. Our gross profit margin slightly decreased from approximately 35.7% for the year ended 31 December 2017 to approximately 34.3% for the year ended 31 December 2018, the decrease was mainly attributable to (i) the decrease in gross profit margin of retailer customers mainly due to the decrease in our sale to the Renowned Toy Specialty Retailer US and the Renowned Toy Specialty Retailer Netherlands as a result of the Retailer's Liquidation; and (ii) the increase in proportion of sale of our products to our PRC customers including PRC Export-Oriented Wholesalers and PRC Domestic-Oriented Wholesalers in 2018 with lower profit margin so as to expand and diversify our customer base by focusing more on PRC based customers.

Our gross profit increased from approximately RMB50.7 million for the eight months ended 31 August 2018 to approximately RMB78.5 million for the eight months ended 31 August 2019, representing an increase of approximately 54.8%. Our gross profit margin increased from approximately 33.9% for the eight months ended 31 August 2018 to approximately 37.3% for the eight months ended 31 August 2019. The increase in our gross profit margin was primarily due to (i) the appreciation of US dollars against RMB as we usually billed our overseas customers in US dollars; (ii) increase in overall sales to overseas retailer customers and overseas wholesaler customers with higher profit margin; and (iii) the increase in gross profit margin of our sale to PRC Export-Oriented Wholesalers for the eight months ended 31 August 2019 as the sale of our new smart toy vehicles in second half of 2018 to PRC Export-Oriented Wholesalers which could earn relatively higher profit margin.

Profit for the year/period

Our profit increased by approximately 7.9% to approximately RMB36.1 million for the year ended 31 December 2017 from approximately RMB33.4 million for the year ended 31 December 2016, due to the increase in our gross profit attributable from the increase in sales. However, given that there was a decrease in gross profit margin between 2016 and 2017, our net profit margin slightly decreased from approximately 15.6% in 2016 to approximately 13.9% in 2017.

Our profit decreased by approximately 9.2% from approximately RMB36.1 million for the year ended 31 December 2017 to approximately RMB32.8 million for the year ended 31 December 2018, due to the increase in finance costs attributable by the increase in bank loan for the year ended 31 December 2018. Our net profit margin decreased from approximately 13.9% for the year ended 31 December 2017 to approximately 11.8% for the year ended 31 December 2018, due to (i) the overall decrease in gross profit margin; and (ii) the increase in income tax expenses mainly attributable from the tax on intra-group dividend income where Kidztech HK declared a dividend of RMB34.0 million to Kidztech Intelligent in 2018, and such dividend was subject to PRC enterprise income tax according to the relevant tax law.

Our profit increased by approximately 146.1% from approximately RMB11.3 million for the eight months ended 31 August 2018 to approximately RMB27.8 million for the eight months ended 31 August 2019, due to the increase in our gross profit attributable from the increase in sales. Our net profit margin increased from approximately 7.5% for the eight months ended 31 August 2018 to approximately 13.2% for the eight months ended 31 August 2019, which was primarily due to (i) the increase in our gross profit for the eight months ended 31 August 2019; (ii) the decrease in net impairment loss on financial assets; and (iii) the increase in other income and other gains for the eight months ended 31 August 2019.

For further details of our revenue, gross profit and gross profit margin, and profit for the year/period, please refer to the paragraph headed "Description of selected items in combined statements of comprehensive income and discussion of results of operation" under the section headed "Financial information" in this prospectus.

Summary of consolidated statements of cash flows

	Year ended 31 December			Eight months ended 31 August	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Operating cash flows before movement in working capital	55,342	74,876	72,631	34,742	55,731
Change in working capital	23,404	(41,656)	(13,465)	(96,102)	(19,880)
Income tax paid	(6,386)	(7,082)	(8,115)	(5,334)	(3,483)
Net cash generated from/(used in) operating activities	72,360	26,138	51,051	(66,694)	32,368
Net cash (used in)/generated from investing activities	(84,098)	(78,079)	(61,329)	(69,399)	2,199
Net cash generated from/(used in) financing activities	14,514	182,275	38,278	44,741	(114,191)
Net increase/(decrease) in cash and cash equivalents	2,776	130,334	28,000	(91,352)	(79,624)
Cash and cash equivalents at beginning of the period	27,942	31,096	159,156	159,156	188,634
Exchange differences on cash and cash equivalents	378	(2,274)	1,478	(199)	738
Cash and cash equivalents at end of the period	31,096	159,156	188,634	67,605	109,748

Net cash used in operating activities amounted to approximately RMB66.7 million for the eight months ended 31 August 2018, was a combined result of approximately RMB61.4 million of cash used in operations and income tax paid of approximately RMB5.3 million. The cash used in operations was primarily attributable to (i) relatively lower amount of profit before income tax of approximately RMB12.6 million; (ii) increase in inventory of approximately RMB31.7 million mainly due to the increase in raw materials for sale during our peak season between June and December of the year; (iii) increase in trade receivables of approximately RMB49.2 million for the eight months ended 31 August 2018 due to the same reason as increase in inventory as mentioned; and (iv) increase in prepayments and other receivables of approximately RMB21.6 million.

COMPETITIVE STRENGTHS

We believe that we have the following competitive strengths:

- Our products have been sold to a wide variety of customers, which covers a majority of toy sales channels;
- We have established long and good business relationship with various international retailers and wholesalers;
- We have a pioneer market position with strong capability in product innovation and design;
- We dedicate ourselves to quality and safety of our products;
- We possess a broad range of production capabilities with vertically and horizontally integrated operation to carry out comprehensive design and sale for toy products;
- We have adopted a global licensing strategy and have established strong standing relationships with renowned automobile manufacturers, toy brand licensor and entertainment character licensors; and
- We possess an experienced management team.

BUSINESS STRATEGIES

With the aim of further developing our business and continuing our growth, we will implement the following strategies:

- Continue to prioritise and focus on overseas market by (i) maintaining and strengthening relationship with our existing direct overseas customers; and (ii) expanding our customer base;
- Continue to strengthen, expand and diversify our customer base by focusing on (i) PRC Export-Oriented Wholesalers; and (ii) PRC retailers;
- Diversify our product offerings through continuous development of new products and global licensing strategy; and
- Expand our production capacity and improve our production efficiency.

CUSTOMERS

Our customers primarily comprise (i) retailers such as (aa) multinational and national retailers operating mass market retail chain stores; (bb) multinational and national toy products retailers operating toy store chains; and (cc) internet store operators; (ii) wholesalers, such as (aa) overseas wholesalers which typically sell our products to their customers which may be wholesalers or retailers in the same markets that our overseas customers are based in; (bb) PRC Export-Oriented Wholesalers; and (cc) PRC Domestic-Sale-Oriented Wholesalers; and (iii) overseas customers that engage us to manufacture products on ODM and OEM bases. For each of the three years ended 31 December 2018 and the eight months ended 31 August 2019, our revenue generated from our five largest customers amounted to approximately RMB74.0 million, RMB121.0 million, RMB102.7 million and RMB87.6 million, respectively, representing approximately 34.6%, 46.5%, 36.8% and 41.6% of our total revenue, respectively, and our revenue generated from our largest customer was approximately RMB28.5 million, RMB61.8 million, RMB25.6 million and RMB36.6 million, respectively, representing approximately 13.3%, 23.8%, 9.2% and 17.4% of our total revenue, respectively.

SUPPLIERS

We sourced our raw materials from third-party suppliers located in the PRC. Our principal raw materials comprise plastic resin, electronic parts and printed box. Our suppliers primarily comprise plastic resins manufacturers, electronic parts manufacturers and packaging materials providers. For each of the three years ended 31 December 2018 and the eight months ended 31 August 2019, our purchase from our five largest suppliers were approximately RMB22.5 million, RMB35.7 million, RMB66.9 million and RMB52.5 million, respectively, representing approximately 26.8%, 29.8%, 43.7% and 51.8% of our total purchase, respectively. For the same period, our purchase from our largest supplier was approximately RMB10.8 million, RMB15.8 million, RMB25.8 million and RMB26.8 million, respectively, representing approximately 12.8%, 13.2%, 16.9% and 26.5% of our total purchase, respectively.

PRODUCTION FACILITIES

During the Track Record Period, we conducted our manufacturing process at the Production Plants, with theoretical maximum production capacity of approximately 236.0 thousand hours, 323.8 thousand hours, 367.0 thousand hours and 270.9 thousand hours, respectively. The annualised theoretical maximum production capacity for the year ended 31 December 2019 was approximately 414.5 thousand hours. Our average utilisation rate of production capacity for the three years ended 31 December 2018 and eight months ended 31 August 2019 was approximately 99.2%, 83.0%, 83.2% and 91.5%, respectively. In order to allow adequate production space for the Planned Expansion, we have commenced construction of the New Production Plant since last quarter of 2017. With 65 additional plastic injection moulding machines under full operation for a year, the theoretical annual production capacity of the New Production Plant will be approximately 374.2 thousand hours. Assuming that the 65 additional plastic injection moulding machines will be put into operation by stage from June 2020 according to the planned schedule for the implementation of the Planned Expansion in 2020, it is anticipated that our Group's total maximum production capacity, including the Production Plants and the New Production Plant, may reach up to approximately 609.3 thousand hours per annum for the year ending 31 December 2020 (the "**Expanded Production Capacity**"). For further details, please refer to the sub-paragraph headed "Production facilities" under the paragraph headed "Production process and production facilities" under the section headed "Business" in this prospectus. We do not expect the Expanded Production Capacity would be fully utilised immediately upon installation of the 65 additional plastic injection moulding machines in 2020. To the best knowledge and belief of our Directors, it is expected that the Expanded Production Capacity would be utilised within three to five years after the year ending 31 December 2020.

RECENT DEVELOPMENT

Based on our audited financial results for the eight months ended 31 August 2019 and our unaudited management accounts subsequent to 31 August 2019 and up to 31 December 2019, we recorded increases in both of the revenue and the gross profit for the year ended 31 December 2019. In particular, we recorded slight increase in the revenue from our smart toy vehicles, and a significant increase in the revenue from our traditional toys, as compared to the same period in 2018 based on our unaudited management accounts.

Subsequent to the Track Record Period and up to the Latest Practicable Date, we secured two new overseas customers that engage us in manufacturing on OEM basis, including a renowned Italian company that sells children's clothings and toys with retail outlets worldwide and renowned company based in the U.S. that develops and markets novelty and impulse toys under different brands. The value of the purchase orders placed by these two new overseas customers amounted to approximately HK$0.8 million and HK$2.5 million respectively during such period. We also entered into licensing agreements with two new renowned automobile manufacturers.

On 13 December 2019, the US and the PRC government officials announced that they have entered into a preliminary trade agreement, whereby the proposed US tariffs to be imposed on certain Chinese imported goods in the Fourth List, including toys, had been deferred. On 18 December 2019, at the direction of the president of the US, the US government determined to suspend indefinitely the imposition of the additional 15% ad valorem duty on certain Chinese imported goods in the Fourth List, including toys. Subsequently, on 15 January 2020, the US and the PRC government signed the phase one agreement aimed at easing the Sino-US trade war. Pursuant to such agreement, among others, US tariffs on approximately US$370 billion Chinese goods remain in place while avoiding the threat of further escalation. In addition, the US president said that the tariffs that remain would be removed pending progress on the second phase of negotiations. Accordingly, the imposition of proposed US tariff on toys exported from the PRC to the US shall continue to be suspended indefinitely, subject to further negotiation between the US and the PRC governments. On 6 February 2020, the Chinese officials announced that tariffs that the Chinese government imposed on some US goods since 1 September 2019 would be cut from 10% to 5%, and on others from 5% to 2.5%. Such reduction in tariffs has become effective since 14 February 2020, as Chinese officials' first response to the phase one agreement.

Beginning early 2020, the PRC and certain countries around the world encountered an outbreak of COVID-19, a highly contagious disease. As at the Latest Practicable Date, the PRC government has implemented various measures to combat against the outbreak of COVID-19 in the PRC, including but not limited to, temporary suspension of work in Shanghai, Suzhou, Guangdong Province, Zhejiang Province, Jiangsu Province and Yunnan Province with extension of the Lunar New Year holiday, quarantine order to restrict entry and exit of Wuhan, restriction of the number of individual and number of times leaving each household per day etc.. On 17 February 2020, the Guiding Opinion on Scientific Prevention and Control of Accurate Policy Division and Classification to prevent and control of the Novel Coronavirus Disease (《關於科學防治精准施策分區分級做好新冠肺炎疫情防控工作的指導意見》) ("**Guiding Opinion**") was published by the Joint Prevention and Control Mechanism of the State Council (國務院聯防聯控機制). Under the Guiding Opinion, relevant government authorities at county level in the PRC are required to formulate specific measures to prevent and control the outbreak of COVID-19 in such area. With the strengthened policies to control the outbreak of COVID-19, it is anticipated that businesses and daily life of citizens can resumed to normal.

With the measures implemented by the PRC government and information currently available to our Directors, our Directors believe that the outbreak of COVID-19 shall not have a permanent impact on our Group and may only affect our Group temporarily. Based on the information currently available to us, we recorded a decrease in (i) net profit during the one month ended 31 January 2020, as compared to one month ended 31 January 2019; and (ii) revenue for the period from 1 January 2020 up to the Latest Practicable Date, as compared to the same period in 2019, since the government officials in Guangdong Province extended the Lunar New Year holiday in 2020 until 9 February 2020 due to the outbreak of COVID-19.

We have resumed operation in the PRC since 10 February 2020. As at the Latest Practicable Date, we have only resumed operation in the PRC for a short period of time, and our operation in the PRC is subject to further development of the outbreak of COVID-19 and government advice or restrictions. Accordingly, it is too early to gauge whether there will be an impact of any significance on our Group's operation at this stage.

Our Directors will continue to assess the impact of the COVID-19 on our Group's operation and financial performance and closely monitor our Group's exposure to the risks and uncertainties in connection with the epidemic. We will take appropriate measures as necessary and inform our Shareholders and potential investors as and when necessary. For further details, please refer to the sub-paragraph headed "The recent outbreak of the contagious COVID-19 in the PRC and worldwide may have a material adverse effect on our business, results of operation, financial condition and prospectus." under the paragraph headed "Risks relating to our business" under the section headed "Risk factors" and the paragraph headed "Potential impact of COVID-19 on our operation in the PRC" under the section headed "Business" in this prospectus.

USE OF PROCEEDS

We intend to use the net proceeds of the Global Offering, after deducting related underwriting fees and commissions and estimated expenses payable in connection with the Global Offering and assuming that the Adjustment Options are not exercised and an Offer Price of HK$1.32 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), of approximately HK$76.1 million, for the following purposes:

- approximately 70.8%, or HK$53.9 million, will be used to fund the Planned Expansion, including, among others, construction of the New Production Plant and acquisition of more machinery and equipment for manufacturing toy products and product design and development;

- approximately 19.2%, or HK$14.6 million, will be used to maintain and strengthen our relationships with existing customers, in particular overseas customers, expand and diversify our customer base through, among others, expanding our sales and marketing departments in both Hong Kong and the PRC, and acquire or invest in downstream companies; and

- approximately 10.0%, or HK$7.6 million, will be used for general replenishment of working capital and other general corporate purpose.

The above allocation of proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the mid-point of the estimated Offer Price range. For further details, please refer to the section headed "Future plans and use of proceeds" in this prospectus.

PROFIT ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2019

Our Directors estimate that, on the bases set out in Appendix IIB to this prospectus, and in the absence of unforeseen circumstances, the estimated consolidated profit attributable to owners of our Company for the year ended 31 December 2019 is as follows:

Estimated consolidated profit attributable to owners of our Company for the year ended 31 December 2019 *(Note)*	Not less than RMB33.0 million
Unaudited pro forma estimated earnings per share for the year ended 31 December 2019	Not less than RMB0.063

Note: For the bases and calculation method, please refer to the paragraph headed "Profit estimate for the year ended 31 December 2019" under the section headed "Financial information" in this prospectus.

LISTING EXPENSES

Assuming that the Adjustment Options are not exercised at all, the listing expenses in connection with Listing, which include professional fees, underwriting commission and fees, assuming an Offer Price of HK$1.32 per Share, being the mid-point of the proposed Offer Price range, are estimated to be approximately RMB36.5 million. During the Track Record Period, we incurred listing expenses of approximately RMB8.6 million which was recognised in our combined statements of comprehensive income for the eight months ended 31 August 2019, and approximately RMB2.7 million was recognised as prepayments in the combined statements of financial position as at 31 August 2019, which will be accounted for as a deduction from equity upon Listing. Subsequent to the Track Record Period, we expect to further incur listing expenses of RMB25.2 million prior to and upon completion of Listing, of which (i) RMB18.2 million is expected to be recognised as expenses in our combined statements of comprehensive income for the two years ending 31 December 2020; and (ii) RMB7.0 million is expected to be accounted for as a deduction from equity upon Listing under the relevant accounting standard.

OFFERING STATISTICS

All statistics in this table are based on the assumptions that (i) the Capitalisation Issue and the Global Offering have been completed and 88,400,000 Shares are newly issued in the Global Offering; (ii) the Adjustment Options are not exercised; and (iii) 520,000,000 Shares are issued and outstanding following completion of the Global Offering.

	Based on Offer Price of HK$1.05 per Share, after a Downward Offer Price Adjustment of 10%	**Based on an Offer Price of HK$1.17 per Share**	**Based on an Offer Price of HK$1.47 per Share**
Market capitalisation[(1)]	Approximately HK$547.6 million	Approximately HK$608.4 million	Approximately HK$764.4 million
Unaudited pro forma adjusted net tangible assets per Share[(2)]	HK$0.73	HK$0.75	HK$0.80

Notes:

(1) The calculation of market capitalisation is based on 520,000,000 Shares expected to be in issue following the Global Offering.

(2) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in Appendix IIA to this prospectus and on the basis of 520,000,000 Shares in issue at the respective Offer Prices of HK$1.17 per Share and HK$1.47 per Share, and also based on an Offer Price of HK$1.05 per Share, after making a Downward Offer Price Adjustment of 10%.

DIVIDEND

We did not declare any dividends during the three years ended 31 December 2018. Pursuant to the resolution of the shareholder meeting of Kidztech Intelligent held on 20 May 2019, dividends of approximately RMB101.4 million were approved by Kidztech Intelligent to its then shareholders. Such dividends were paid during the eight months ended 31 August 2019.

We do not currently have a dividend payment plan or policy. Declaration of dividends is subject to the discretion of our Directors, depending on our results of operation, working capital and cash position, future business and earnings, capital requirements, contractual restrictions under our bank loan agreements, if any, as well as any other factors which our Directors may consider relevant. In addition, any declaration and payment as well as the amount of the dividends will be subject to the provisions of (i) our Articles; and (ii) the applicable laws of the Cayman Islands. For further details, please refer to the paragraph headed "Dividends" under the section headed "Financial information" in this prospectus.

RISK FACTORS

We believe that there are certain risks and uncertainties involved in our operations, some of which are beyond our control. We believe a few of the more significant risks relating to our business are as follows:

- if we fail to improve our clients' experience or respond to changes in our customers' preference with our design, research and development, in particular in respect of smart toy vehicles, we may not be able to attract and retain our customers, which may have a material adverse effect on our business, financial condition and results of operation;
- if we fail to renew intellectual properties licensing arrangements with our licensors, our results of operation may be materially and adversely affected;
- the Sino-US trade war may affect our business, financial conditions and results of operation;
- the recent outbreak of the contagious COVID-19 in the PRC and worldwide may have a material adverse effect on our business, results of operation, financial condition and prospects;
- we do not maintain long-term purchase contracts with most of our customers, any disruption or termination of our business relationships with our major customers or fluctuations in their demand for our products may have a material adverse effect on our business, results of operation, financial condition and prospects; and

- our sale of co-branded products during the Track Record Period relied on the popularity and market acceptance of intellectual properties used in the co-branded products, which depends largely on the public reception on the car models and the entertainment characters of the intellectual properties licensors and the marketing and promotional activities of the intellectual properties licensors.

These risks are not the only significant risks that may affect the value of our Shares. Please refer to the section headed "Risk factors" in this prospectus for further details.

REASONS FOR LISTING

Our Directors consider that Listing will benefit our Group in (i) driving the potential market growth and implementing strategies; (ii) satisfying our genuine funding needs for the implementation of our future plans; (iii) enhancing our Group's corporate profile, brand awareness and competitiveness; (iv) enhancing our Group's market status amongst existing and potential licensors, customers and suppliers, and employees; (v) enhancing capital market accessibility and ease of raising funds in capital market; and (vi) achieving benefits of choosing the Hong Kong stock market as the listing venue. Please refer to the paragraph headed "Reasons for Listing" under the section headed "Future plans and use of proceeds" in this prospectus for further details.

LEGAL PROCEEDINGS AND COMPLIANCE

To the best knowledge of our Directors, as of the Latest Practicable Date, there were no legal proceedings or claims currently existing, pending or threatened against any member of our Group that we consider will have a material adverse effect on our financial conditions or results of operation.

During the Track Record Period and up to the Latest Practicable Date, our business operations had complied with all applicable laws, rules and regulations in all material respects save for (i) failure to make social insurance contributions in full compliance with the Social Insurance Law of the PRC; (ii) failure to make housing provident fund contributions in full compliance with the Regulations on the Administration of Housing Provident Fund of the PRC; and (iii) failure in completing the (a) environmental impact assessment before construction; and (b) construction of the matching environmental protection facilities and the inspection and acceptance formalities before the operation of the Production Plant II. Please refer to the sub-paragraph headed "Non-compliance incidents" under the paragraph headed "Legal proceedings and compliance" in the section headed "Business" of this prospectus.

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Global Offering (but 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 of the Adjustment Options), our Controlling Shareholders, namely Mr. Yu and his spouse, Ms. Chen, through their investment holding company, Top Synergy, will be entitled to exercise voting rights of approximately 39.80% of the total issued share capital of our Company. Accordingly, Mr. Yu, Ms. Chen and Top Synergy, which constitute a group of controlling shareholders of our Company, will continue to be our Controlling Shareholders upon Listing. Each of our Controlling Shareholders and their respective close associates does not have any interest apart from the business of our Group which competes or is likely to compete, directly or indirectly with the business of our Group and which requires disclosure pursuant to Rule 8.10 of the Listing Rules. For further details, please refer to the section headed "Relationship with our Controlling Shareholders" of this prospectus.

PRE-IPO INVESTORS

Between July and October 2019, Mr. Yu, Mr. Xu, Ms. Song and Ms. Ng acquired approximately 4.61%, 3.78%, 1.10% and 12.82% of the entire equity interest of Kidztech Intelligent, respectively. For further details of the Pre-IPO Investments, please refer to the paragraph headed "Pre-IPO Investments" in the section headed "History, Reorganisation and corporate structure" of this prospectus.

NO MATERIAL ADVERSE CHANGE

There was no interruption in our business that may have or has had a significant effect on our financial position in the last 12 months. Except to the extent disclosed in the paragraph headed "Recent development" above and the listing expenses in connection with the Global Offering, our Directors confirm that there has been no material adverse change in our financial, operational or trading position since 31 August 2019 (being the date as of which our latest audited combined financial statements were prepared as set out in Appendix I to this prospectus) and up to the date of this prospectus.

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

"Accountant's Report"	the accountant's report on our Group for the Track Record Period set out in Appendix I to this prospectus
"Adjustment Options"	the Offer Size Adjustment Option and the Over-allotment Option
"affiliate(s)"	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
"Application Form(s)"	**WHITE** application form(s), **YELLOW** application form(s) and **GREEN** application form(s), individually or collectively, as the context may require
"Articles of Association" or "Articles"	the amended and restated articles of association of our Company, conditionally adopted on 13 February 2020 to take effect on the Listing Date, a summary of which is set out in Appendix III to this prospectus, and as amended from time to time
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"business day"	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
"BVI"	the British Virgin Islands
"Capitalisation Issue"	the issue of 353,600,000 Shares to be made upon capitalisation of the amount of HK$353,600 standing to the credit of the share premium account of our Company in connection with the Global Offering as referred to in the sub-paragraph headed "3. Written resolutions of the existing Shareholders" under the paragraph headed "A. Further information about our Company" in Appendix IV to this prospectus
"Captivating Snow"	Captivating Snow Limited, a company incorporated under the laws of the BVI with limited liability on 13 November 2019 and wholly owned by Ms. Cao
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant(s)"	person(s) admitted to participate in CCASS as a direct clearing participant(s) or general clearing participant(s)
"CCASS Custodian Participant(s)"	person(s) admitted to participate in CCASS as a custodian participant(s)

"CCASS Investor Participant(s)"	person(s) admitted to participate in CCASS as investor participant(s), who may be an individual or joint individuals or a corporation(s)
"CCASS Operational Procedures"	the operational procedures of HKSCC in relation to CCASS, containing the practices, procedure and administrative requirements relating to the operations and functions of CCASS, as from time to time in force
"CCASS Participant(s)"	CCASS Clearing Participant(s), CCASS Custodian Participant(s) or CCASS Investor Participant(s)
"CG Code"	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
"Charming Flair"	Charming Flair Limited, a company incorporated under the laws of the BVI with limited liability on 13 November 2019 and wholly owned by Mr. Cai
"Cheerful Highflyer"	Cheerful Highflyer Limited, a company incorporated under the laws of the BVI with limited liability on 19 September 2019 and wholly owned by Mr. Chen Hongkai (陳鴻凱)
"Chenghai Changxing"	Shantou Chenghai Changxing Paper Foil Co., Ltd.* (汕頭市澄海區昌興紙箔有限公司), a company established under the laws of the PRC on 25 July 1990 which is held as to 50% equity interest each by Ms. Chen and Ms. Chen Suying, mother of Mr. Yu and a connected person
"CIC"	China Insights Industry Consultancy Limited, an industry expert and Independent Third Party, hired to conduct an analysis of, and to report on, the toy manufacturing and sale industry
"CIC Report"	the report prepared by CIC on the toy manufacturing and sale industry
"close associate(s)"	has the meaning ascribed to it under the Listing Rules
"Companies Law"	the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Companies Ordinance"	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"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, supplemented or otherwise modified from time to time
"Company" or "our Company"	Kidztech Holdings Limited 奇士達控股有限公司, an exempted company incorporated under the laws of the Cayman Islands with limited liability on 25 October 2019

"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and, in the context of our Company, means the controlling shareholders of our Company, namely Mr. Yu, Ms. Chen and Top Synergy, or, where the context so requires, any one of them. Please refer to the section headed "Relationship with our Controlling Shareholders" and the sub-paragraph headed "1. Disclosure of interests" under the paragraph headed "C. Further information about Substantial Shareholders, Directors and experts" in Appendix IV to this prospectus for details of their shareholding
"core connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Courageous Soul"	Courageous Soul Limited, a company incorporated under the laws of the BVI with limited liability on 19 September 2019 and wholly owned by Mr. Chen Shi (陳實)
"COVID-19"	novel coronavirus (COVID-19), a coronavirus identified as the cause of an outbreak of respiratory illness that was first reported in Wuhan, China
"CSRC"	the China Securities Regulatory Commission (中國證券監督管理委員會)
"Darren Technology"	Darren Technology and Innovation Limited, a company incorporated under the laws of the BVI with limited liability on 13 November 2019 and owned by Mr. Xie Weibin (謝偉彬) as to approximately 74.15%, Ms. Li Yina (李亦娜) as to approximately 14.77% and Ms. Xie Dongsun (謝東笋) as to approximately 11.08%
"Deed of Indemnity"	the deed of indemnity dated 13 February 2020 executed by our Controlling Shareholders in favour of our Company (for itself and as trustee for each of its subsidiaries) regarding certain indemnities, details of which are set out in the sub-paragraph headed "2. Tax, estate duty and other indemnities" under the paragraph headed "D. Other information" in Appendix IV to this prospectus
"Deed of Non-competition"	the deed of non-competition dated 13 February 2020 executed by our Controlling Shareholders in favour of our Company (for itself and as trustee for each of its subsidiaries) regarding certain non-competition undertakings, details of which are set out in the paragraph headed "Deed of Non-competition" under the section headed "Relationship with our Controlling Shareholders" in this prospectus

"Dickie"	Dickie Toys Hong Kong Ltd., a company incorporated under the laws of Hong Kong in 1978 and is a member of a group of companies which is famous for selling toy vehicles; one of the top five customers of our Group for each of the three years ended 31 December 2018; and an Independent Third Party
"Director(s)"	the director(s) of our Company
"Downward Offer Price Adjustment"	an adjustment that has the effect of setting the final Offer Price up to 10% below HK$1.17 (the bottom end of the indicative Offer Price range)
"EIT"	enterprise income tax of the PRC
"EIT Law"	Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) which became effective on 1 January 2008, and was subsequently amended on 24 February 2017 and 29 December 2018
"E.U." or "EU"	the European Union
"Famous Entertainment Character Licensor"	an entertainment character licensor which ranks third in the retail brand of the global toy market in terms of sales revenue in 2018 according to the CIC Report
"Famous Toy Brand Licensor"	a toy brand licensor which ranks second in the retail brand of the global toy market in terms of sales revenue in 2018 according to the CIC Report
"Fourth List"	a further list of products of China origin issued by the Office of the United States Trade Representative on 17 May 2019 that would be subject to an additional ad valorem duty
"Global Offering"	the Hong Kong Public Offering and the International Offering
"**GREEN** application form(s)"	the application form(s) to be completed by the **HK eIPO White Form** Service Provider, designated by our Company
"Group", "our Group", "we" or "us"	the group of companies comprising (a) before our Reorganisation, such companies or businesses proposed to become part of our Group upon completion of our Reorganisation; and (b) after our Reorganisation, our Company and its subsidiaries, and the expression "member of our Group" means any of them
"HKFRS"	Hong Kong Financial Reporting Standard(s) and interpretation(s), issued by the HKICPA
"HKICPA"	Hong Kong Institute of Certified Public Accountants

"**HK eIPO White Form**"	the application for the Hong Kong Offer Shares to be issued in the own name of the applicant by submitting application online through the designated website at **www.hkeipo.hk** or the IPO App
"**HK eIPO White Form** Service Provider"	the **HK eIPO White Form** service provider designated by our Company, as specified on the designated website of **www.hkeipo.hk** or in the IPO App
"HK$" or "Hong Kong dollars" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Branch Share Registrar"	Tricor Investor Services Limited, the branch share registrar and transfer office of our Company in Hong Kong
"Hong Kong Offer Shares"	the 8,840,000 Shares initially offered for subscription pursuant to the Hong Kong Public Offering, subject to readjustment as described in the section headed "Structure and conditions of the Global Offering" in this prospectus
"Hong Kong Public Offering"	the offering by our Company of the Hong Kong Offer Shares for subscription by the public in Hong Kong, as further described in the section headed "Structure and conditions of the Global Offering" in this prospectus
"Hong Kong Underwriters"	the underwriters of the Hong Kong Public Offering listed in the sub-paragraph headed "Hong Kong Underwriters" under the paragraph headed "Underwriters" under the section headed "Underwriting" in this prospectus
"Hong Kong Underwriting Agreement"	the underwriting agreement dated 27 February 2020 relating to the Hong Kong Public Offering and entered into by our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and our Company, as further described in the sub-paragraph headed "Hong Kong Underwriting Agreement" under the paragraph headed "Underwriting arrangements and expenses" under the section headed "Underwriting" in this prospectus
"Humble Windsurfer"	Humble Windsurfer Limited, a company incorporated under the laws of the BVI with limited liability on 13 November 2019 and wholly owned by Mr. Huang Wenwei (黃文偉)

"Iconic Builder"	Iconic Builder Limited, a company incorporated under the laws of the BVI with limited liability on 19 September 2019 and wholly owned by Mr. Xu
"Independent Third Party(ies)"	a person, persons, company or companies which is or are independent of, and not connected with (within the meaning under the Listing Rules), any directors, chief executive or substantial shareholders of our Company, any of its subsidiaries or any of their respective associate(s)
"International Offer Shares"	the 79,560,000 Shares initially offered for subscription pursuant to the International Offering, subject to readjustment and the Adjustment Options as described in the section headed "Structure and conditions of the Global Offering" in this prospectus
"International Offering"	the conditional placing of the International Offer Shares by the International Underwriters, as further described in the section headed "Structure and conditions of the Global Offering" in this prospectus
"International Underwriters"	the underwriters of the International Offering that are expected to enter into the International Underwriting Agreement
"International Underwriting Agreement"	the underwriting agreement expected to be entered into on or around 9 March 2020 by our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the International Underwriters and our Company in respect of the International Offering, as further described in the sub-paragraph headed "International Underwriting Agreement" under the paragraph headed "Underwriting arrangements and expenses" under the section headed "Underwriting" in this prospectus
"IPO App"	the mobile application for **HK eIPO White Form** service which can be downloaded by searching "IPO App" in App Store or Google Play or download at **www.hkeipo.hk/IPOApp** or **www.tricorglobal.com/IPOApp**
"Joint Bookrunners"	CMBC Securities Company Limited, CEB International Capital Corporation Limited, BOCOM International Securities Limited, Haitong International Securities Company Limited, Shanxi Securities International Limited, Elstone Securities Limited, China Tonghai Securities Limited and GLAM Capital Limited
"Joint Lead Managers"	CMBC Securities Company Limited, CEB International Capital Corporation Limited, BOCOM International Securities Limited, Haitong International Securities Company Limited, Shanxi Securities International Limited, Elstone Securities Limited, China Tonghai Securities Limited, GLAM Capital Limited, Maxa Capital Limited, Ever-Long Securities Company Limited, Livermore Holdings Limited and Hung Sing Securities Limited

"Keen Pacemaker"	Keen Pacemaker Limited, a company incorporated under the laws of the BVI with limited liability on 11 September 2019 and wholly owned by Mr. Pui
"Kidztech BVI"	Kidztech (BVI) Limited, a company incorporated under the laws of the BVI with limited liability on 6 November 2019 and a direct wholly-owned subsidiary of our Company
"Kidztech (China)"	Kidztech (China) Intelligent Technology Co., Limited (奇士達(中國)智能科技有限公司), a company incorporated under the laws of Hong Kong on 24 October 2019 and an indirect wholly-owned subsidiary of our Company
"Kidztech HK"	Kidztech Toys Manufacturing Limited (奇士達玩具製造有限公司), a company incorporated under the laws of Hong Kong with limited liability on 18 July 2011 and an indirect wholly-owned subsidiary of our Company
"Kidztech Infotech"	Kidztech (Shantou) Information Technology Co., Ltd.* (奇士達(汕頭)信息科技有限公司), a limited liability company established under the laws of the PRC on 21 March 2017 and an indirect wholly-owned subsidiary of our Company
"Kidztech Intelligent"	Kidztech (Guangdong) Intelligent Technology Co., Ltd.* (奇士達(廣東)智能科技有限公司), formerly known as Kidztech Intelligent Technology Co. Ltd.* (奇士達智能科技股份有限公司), Chenghai Ximu Plastic Toys Co., Ltd.* (澄海市喜木塑膠玩具有限公司) and Shantou Chenghai Ximu Plastic Toys Co., Ltd.* (汕頭市澄海區喜木塑膠玩具有限公司), a limited liability company established under the laws of the PRC on 30 May 2001 and an indirect wholly-owned subsidiary of our Company
"Kidztech Internet"	Shenzhen Kidztech Internet Technology Co., Ltd.* (深圳奇士達互聯網科技有限公司), a limited liability company established under the laws of the PRC on 23 September 2015 and an indirect wholly-owned subsidiary of our Company
"Kidztech IoT"	Shenzhen Kidztech Internet of Things Technology Co., Ltd.* (深圳奇士達物聯網科技有限公司), a limited liability company established under the laws of the PRC on 1 April 2016 and an indirect wholly-owned subsidiary of our Company
"Latest Practicable Date"	19 February 2020, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information in this prospectus prior to its publication
"Listing"	listing of the Shares on the Main Board of the Stock Exchange

"Listing Committee"	the Listing Committee of the Stock Exchange
"Listing Date"	the date, expected to be on or about 18 March 2020, on which our Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
"M&A Rules"	the Rules on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》), which were issued by MOFCOM, State-owned Assets Supervision and Administration Commission of the State Council, State Administration of Taxation, the former State Administration for Industry & Commerce of the PRC, China Securities Regulatory Commission and SAFE on 8 August, 2006 and became effective on 8 September 2006, and were further amended by MOFCOM on 22 June 2009
"Magical Joint"	Magical Joint Power Limited, a company incorporated under the laws of the BVI with limited liability on 13 November 2019 and wholly owned by Mr. Wang Jin (王瑾)
"Main Board"	the Main Board of the Stock Exchange
"Memorandum" or "Memorandum of Association"	the amended and restated memorandum of association of our Company adopted on 13 February 2020 to take effect on the Listing Date, a summary of which is set out in Appendix III to this prospectus, and as amended from time to time
"MOF"	the Ministry of Finance of the PRC (中華人民共和國財政部)
"MOFCOM"	the Ministry of Commerce of the PRC (中華人民共和國商務部)
"Motivational Mathematics"	Motivational Mathematics Limited, a company incorporated under the laws of the BVI with limited liability on 11 September 2019 and wholly owned by Ms. Ng
"Mr. Cai"	Mr. Cai Fenguang (蔡奮光), the sole shareholder of Charming Flair and the spouse of Ms. Zheng Jingyun, our non-executive Director
"Mr. Pui"	Mr. Pui Lik Leung Kenny (貝烈亮), our executive Director
"Mr. Wu"	Mr. Wu Demiao (伍德秒), the sole shareholder of Wondrous Diamond and the financial controller of our Group
"Mr. Xu"	Mr. Xu Jianxin (許建歆), the sole shareholder of Iconic Builder and a Pre-IPO Investor

"Mr. Yu"	Mr. Yu Huang (余煌), our executive Director, the chairman of our Board, one of our Controlling Shareholders and the spouse of Ms. Chen, and a Pre-IPO Investor
"Ms. Cao"	Ms. Cao Xuelian (曹雪蓮), the sole shareholder of Captivating Snow, one of our joint company secretaries and a deputy general manager of our Group
"Ms. Chen"	Ms. Chen Cheng (陳騁), one of our Controlling Shareholders and the spouse of Mr. Yu
"Ms. Ng"	Ms. Ng Mo Sum (吳慕心), the sole shareholder of Motivational Mathematics and a Pre-IPO Investor
"Ms. Song"	Ms. Song Nannan (宋楠楠), the sole shareholder of Superior Nature and a Pre-IPO Investor
"NDRC"	the National Development and Reform Commission (中華人民共和國國家發展和改革委員會)
"NEEQ"	the National Equities Exchange and Quotations (全國中小企業股份轉讓系統)
"New PRC Holdco"	Shantou Kidztech No. 2 Technology Consulting Co., Ltd.* (汕頭市奇士達二號科技諮詢有限公司), a company established under the laws of the PRC on 22 November 2019 and an indirect wholly-owned subsidiary of our Company
"New Production Plant"	the new production plant which was under construction and located adjacent to the Production Plant I as at the Latest Practicable Date
"NPC"	the National People's Congress (全國人民代表大會)
"OFAC"	the Office of Foreign Assets Control of the U.S. Department of the Treasury
"Offer Price"	the final offer price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%), at which Hong Kong Offer Shares are to be subscribed, to be determined in the manner further described in the section headed "Underwriting" in this prospectus
"Offer Shares"	the Hong Kong Offer Shares and the International Offer Shares, collectively, and where relevant, together with any additional Shares which may be issued pursuant to the exercise of any of the Adjustment Options

"Offer Size Adjustment Option"	the option granted by our Company to the International Underwriters, exercisable by the Sole Global Coordinator (for itself and on behalf of the International Underwriters), at its sole discretion, whereby our Company may be required to allot and issue up to 13,260,000 additional International Offer Shares representing up to 15% of the Offer Shares initially available under the Global Offering, at the Offer Price solely to cover any excess demand in the International Offering, subject to the terms of the International Underwriting Agreement
"Old PRC Holdco"	Shantou Kidztech Technology Consulting Co., Ltd.* (汕頭市奇士達科技諮詢有限公司), a company established under the laws of the PRC on 21 November 2019 for the purpose of our Reorganisation and which will not form part of our Group
"Over-allotment Option"	the option expected to be granted by our Company to the International Underwriters, exercisable at the sole discretion of the Sole Global Coordinator (for itself and on behalf of the International Underwriters) pursuant to which our Company may be required to allot and issue up to an aggregate of 13,260,000 additional Shares (representing up to 15% of the Offer Shares initially being offered under the Global Offering) at the Offer Price solely to cover over-allocation in the International Offering, the details of which are described in the section headed "Underwriting" in this prospectus
"Planned Expansion"	the planned development of the New Production Plant which is expected to complete in or around the second quarter of 2020
"PRC" or "China"	the People's Republic of China, except where the context requires otherwise excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"PRC Domestic-Sale-Oriented Wholesaler(s)"	our wholesaler customer(s) based in the PRC, which, to the best of our Directors' knowledge and belief, are principally engaged in domestic sale of toys to wholesalers and retailers in the PRC local market
"PRC Export-Oriented Wholesaler(s)"	our wholesaler customer(s) based in the PRC, which, to the best of our Directors' knowledge and belief, principally exports and sells toys to overseas wholesalers and retailers and would mainly onward export our products to overseas market
"PRC Legal Advisers"	King & Wood Mallesons, the PRC legal advisers of our Company in connection with the Global Offering
"Pre-IPO Investments"	the investments in our Group made by the Pre-IPO Investors prior to Listing
"Pre-IPO Investor(s)	Mr. Yu, Ms. Song, Mr. Xu and Ms. Ng

"Price Determination Agreement"	the agreement to be entered into by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date to record and fix the Offer Price
"Price Determination Date"	the date, expected to be on or around 9 March 2020 (Hong Kong time) on which the Price Determination Agreement will be entered into but in any event no later than 16 March 2020
"Production Plant I"	our production base that is located in Chenghai District, Shantou District, Guangdong Province, the PRC with total gross floor area of approximately 13,000 sq.m. and was owned by our Group as at the Latest Practicable Date
"Production Plant II"	our production base that is located in Chenghai District, Shantou District, Guangdong Province, the PRC with total gross floor area of approximately 20,000 sq.m. and was leased from a connected person as at the Latest Practicable Date
"Production Plants"	collectively, the Production Plant I and the Production Plant II
"Qianhai Huangcheng"	Shenzhen Qianhai Huangcheng Asset Management Co., Ltd.* (深圳前海煌騁資產管理有限公司), a company established under the laws of the PRC with limited liability on 10 June 2015 and owned by Mr. Yu and Ms. Chen as to 50% equity interest each
"Qualified Institutional Buyers" or "QIBs"	has the meaning given in Rule 144A under the U.S. Securities Act
"R&D"	research and development
"Regulation S"	Regulation S under the U.S. Securities Act
"Renowned Multinational Retailer"	the world's largest multinational retail corporation that is found in the US and operates a chain of hypermarkets
"Renowned Toy Specialty Retailer"	a renowned toy specialty retailer which was founded in the U.S., used to own entities traded under the name thereof and has numerous chain stores worldwide
"Renowned Toy Specialty Retailer US"	an entity that was once traded under the name of the Renowned Toy Specialty Retailer in the US and one of our top five customers for the two years ended 31 December 2017
"Renowned Toy Specialty Retailer Netherlands"	an entity that was once traded under the name of the Renowned Toy Specialty Retailer across Europe and one of our top five customers for the two years ended 31 December 2017

"Reorganisation"	the corporate reorganisation undergone by our Group in preparation for Listing as described in the paragraph headed "Reorganisation" under the section headed "History, Reorganisation and corporate structure" in this prospectus
"Retailer's Liquidation"	liquidation of entities traded under the name of the Renowned Toy Specialty Retailer in various jurisdictions, including both the US and Europe, between 2017 and 2018
"RMB"	Renminbi, the official currency of the PRC
"Rule 144A"	Rule 144A under the U.S. Securities Act
"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SAT"	the State Taxation Administration (國家稅務總局)
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Shantou Jinjun"	Shantou Chenghai Jinjun Toys Co., Ltd.* (汕頭市澄海區錦駿玩具有限公司), a limited liability company established under the laws of the PRC on 19 June 2009 and deregistered on 17 January 2019
"Shantou Yudilong"	Shantou Yudilong Plastic Co., Ltd.* (汕頭市裕迪隆塑膠有限公司), a limited liability company established under the laws of the PRC on 24 December 2001 and an indirect wholly-owned subsidiary of our Company before being disposed of on 30 August 2019
"Share(s)"	ordinary share(s) of HK$0.001 each in the share capital of our Company
"Shareholder(s)"	holder(s) of our Share(s)
"Share Option Scheme"	the share option scheme conditionally adopted by our Company on 13 February 2020, the principal terms of which are summarised in the sub-paragraph headed "1. Share Option Scheme" under the paragraph headed "D. Other information" in Appendix IV to this prospectus
"Sole Global Coordinator" or "Stabilising Manager"	CMBC Securities Company Limited, a corporation registered under the SFO permitted to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO

"Sole Sponsor"	CMBC International Capital Limited, a corporation registered under the SFO permitted to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the sole sponsor of the Global Offering
"sq.ft."	square feet
"sq.m."	square metre(s)
"Stock Borrowing Agreement"	a stock borrowing agreement expected to be entered into between Top Synergy and the Stabilising Manager (or its affiliate) on or about the Price Determination Date
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed thereto under the Listing Rules
"Substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and, for the purpose of this prospectus, refers to our Shareholders disclosed in the section headed "Substantial Shareholders" in this prospectus or, where the context so requires, any one of them
"Superior Nature"	Superior Nature Limited, a company incorporated under the laws of the BVI with limited liability on 18 September 2019 and wholly owned by Ms. Song
"Takeovers Code"	the Codes on Takeovers and Mergers and Share Buy-backs in Hong Kong as approved by the SFC and as amended, supplemented or otherwise modified from time to time
"Top Alliance"	Top Alliance H&M Limited, a company incorporated under the laws of the BVI with limited liability on 19 September 2019 and owned by Mr. Huang Yu (黃宇) as to 70% and Ms. Ma Liang'e (馬良娥) as to 30%
"Top Synergy"	Top Synergy Y&C Limited, a company incorporated under the laws of the BVI with limited liability on 19 September 2019 and owned by Mr. Yu as to approximately 94.79% and Ms. Chen as to approximately 5.21%, one of our controlling Shareholders
"Track Record Period"	comprises the three years ended 31 December 2018 and the eight months ended 31 August 2019
"U.K." or "UK"	the United Kingdom
"U.N." or "UN"	the United Nations
"U.S." or "United States" or "US"	the United States of America

"U.S. Securities Act"	the United States Securities Act of 1933 (as amended from time to time)
"US$" or "US Dollars" or "USD"	United States dollars, the lawful currency of the United States
"Underwriters"	the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"VAT"	value-added tax
"WFOE"	Shantou Kidztech No. 1 Technology Consulting Co., Ltd.* (汕頭市奇士達一號科技諮詢有限公司), a company established under the laws of the PRC on 21 November 2019 and an indirect wholly-owned subsidiary of our Company
"**WHITE** Application Form(s)"	the form(s) of application for the Hong Kong Offer Shares for use by members of the public who require such Hong Kong Offer Shares to be issued in an applicant's own name
"Withdrawal Mechanism"	a mechanism which requires our Company, among other things, to (a) issue a supplemental prospectus as a result of material changes in the information (e.g. the offer price) in the prospectus; (b) extend the offer period and to allow potential investors, if they so desire, to confirm their applications using an opt-in approach i.e. requiring investors to positively confirm their applications for shares despite the change
"Wondrous Diamond"	Wondrous Diamond Limited, a company incorporated under the laws of the BVI with limited liability on 11 September 2019 and wholly owned by Mr. Wu
"**YELLOW** Application Form(s)"	the form(s) of application for the Hong Kong Offer Shares for use by members of the public who require such Hong Kong Offer Shares to be deposited directly into CCASS
"Youthful Jaguar"	Youthful Jaguar Limited, a company incorporated under the laws of the BVI with limited liability on 13 November 2019 and wholly owned by Mr. Yu Junhao (余俊浩)
"%"	per cent.

* *for identification purposes only*

In this prospectus, the English translations of the official Chinese names of PRC laws or regulations, PRC government authorities, companies or other entities organised in the PRC or project names are furnished for identification purposes only. Should there be any inconsistency between the Chinese names and the English translations, the Chinese names shall prevail.

All times and dates refer to Hong Kong times and dates. Unless otherwise specified, references to years in this prospectus are to calendar years.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments or approximation. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

Unless otherwise specified, all relevant information in this prospectus assumes no exercise of the Adjustment Options.

This glossary contains explanations of certain terms used in this prospectus in connection with our Group and our business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.

"Acceptance Quality Limit"	quality level that is the worst tolerable in ISO 2959–1 (i.e. sampling procedures for inspection by attributes), representing the maximum number of defective units, beyond which a batch is rejected
"CAGR"	compound annual growth rate
"co-branded products"	products branded under (i) third party licensed intellectual properties and our overseas customers' brand; or (ii) third party licensed intellectual properties and our "kidztech" brand
"comprehensive retailer"	one type of retailer of the global toy market, which has numerous retail stores, generally covers multiple-nations, and focuses more on end customers and sells a variety of groceries and goods
"comprehensive toy specialty retailer"	one type of retailer of the global toy market, which involves in the whole industry chain such as designing, manufacturing and retailing and focuses on selling toys
"entertainment characters"	reputable and/or up-and-coming characters featured in animated television series or motion pictures
"FOB"	an abbreviation for free on board, which means that title and risk pass to the buyer including payment of all transportation and insurance costs once delivered on board to the ship by the seller; an international commerce term used for sea or inland waterway transportation
"GDP"	gross domestic product
"ICTI"	International Council of Toy Industries, being the industry association for worldwide industry
"ISO"	International Organisation for Standardisation
"OBM"	acronym for original brand manufacturing, where a manufacturer owns the brand and is fully responsible for the design, engineering, manufacturing, and marketing of the products
"ODM"	acronym for original design manufacturing, where a manufacturer designs and manufactures a product with their own technologies and specifications, but such manufacturer is still required to obtain brand authorisation and brand name label of its customers

"OEM"	acronym for original equipment manufacturing, a company is responsible for manufacturing products in accordance with their brand authorisers' specifications and are marketed and sold under downstream companies' brand name labels
"plastic components"	plastic components that are manufactured mainly by plastic injection moulding
"plastic injection mould"	a complex structure composed of metal components which is utilised in the manufacturing of plastic components utilising the plastic injection moulding process
"plastic injection moulding"	a manufacturing process that involves injecting melted plastic resins into a plastic injection mould to form into different shape and size of plastic components
"plastic resins"	certain raw materials used for manufacturing plastic components
"smart hardware"	a hardware device which effectively has its own innovated function by virtue of on-board electronics; it may be remote controlled or networked together with a controller or smart phone, including Bluetooth speakers
"smart toy"	a toy which effectively has its own innovated function by virtue of on-board electronics; it may be remote controlled or networked together with a controller or smart phone and may have interactive features in order to enhance its recreational value or educational features including a smart toy vehicle and a smart interactive toy
"traditional toy"	a toy that needs to be moved manually by consumers and is usually a role play toy; including a traditional toy vehicle, a traditional educational toy and a doll

* *For identification purpose only*

This prospectus contains forward-looking statements that state our Group's intention, belief, expectation or prediction for the future that are, by their nature, subject to significant risks and uncertainties.

These forward-looking statements include, without limitation, statements relating to:

— the industry regulatory environment as well as the industry outlook in general;

— the amount and nature of, and potential for, future development of our Group's business;

— our Group's business objectives and strategies;

— our Group's capital expenditure plans;

— our Group's operations and business prospects; and

— our Group's future plans.

The words "believe", "intend", "anticipate", "estimate", "plan", "potential", "will", "would", "may", "should", "expect", "seek" and similar expressions, as they relate to our Group, are intended to identify a number of these forward-looking statements. All statements (other than statements of historical facts included in this prospectus), including statements regarding our Group's strategy, plans and objectives of management for future operations, are forward-looking statements. These forward-looking statements reflect our current view with respect to future events, but they are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risks factors as disclosed under the section headed "Risk factors" and elsewhere in this prospectus. One or more of these risks or uncertainties may materialise, or the underlying assumptions may prove to be incorrect. Although our Directors believe that our current views as reflected in those forward-looking statements based on currently available information are reasonable and that our Directors have exercised due care in expressing our views, including the forward-looking statements, in this prospectus, we can give no assurance that those views will prove to be correct, and the investors are cautioned not to place undue reliance on such statements.

Subject to the requirements of the Listing Rules or the applicable laws, we undertake no obligation to publicly update or revise any forward-looking statements contained in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

Potential investors should carefully consider all information set out in this prospectus and, in particular, should consider the following risks and uncertainties described below before making any investment decision in relation to the Global Offering. Any of the risks and uncertainties described below could have a material adverse effect on our business, results of operation, financial conditions or the trading price of our Shares, and could cause you to lose all or part of the value of your investment in the Offer Shares.

RISKS RELATING TO OUR BUSINESS

If we fail to improve our clients' experience or respond to changes in our customers' preference, we may not be able to attract and retain our customers, which may have a material adverse effect on our business, financial condition and results of operation.

We are a toy manufacturer and our business is reliant on client relationships. Our success depends on our ability to attract and retain our customers. We believe our focus on customer service is critical to attracting new customers and retaining existing customers. To satisfy our existing and new customers, we need to continue to maintain attractiveness of our products and improve our product design. This includes participating in toy fairs on a regular basis, constantly visiting and communicating with overseas customers to understand the latest trend of the toy market, and maintaining continuous communication with our licensors to work out desirable designs appealing to our customers. To maintain our position in the toy market, we must stay abreast of constantly changing consumer preferences and anticipate market trends that will appeal to existing and potential customers, and ultimately to end consumers. If we are unable to update our product design and development regularly, as well as failing to predict consumer behaviour accurately, we may lose existing customers and fail to attract new ones. This may in turn lead to significant adverse effect on our business, financial condition and results of operation.

Our design, research and development of new products may not be successful or well-received by the market, and we may lose our competitiveness if we are unable to successfully develop new products or innovative ways to meet changing market demands for products.

Our success depends upon our ability to address the changes in consumer trends by developing and introducing new and innovative products on a timely manner and in accordance with changing demands. Our design, research and development department, based in Hong Kong, target to keep track of the latest global trend in toy products through our operation in Hong Kong. However, our market research regarding the latest trends of toy market may be inaccurate, or we may fail to appreciate the change in consumer preferences.

We devote substantial resources to strengthen our product design, research and development capabilities. We endeavour to improve customers' satisfaction by including additional features and functions to our products. Historically, our strong capability in product innovation and design includes designing and developing a toy racer that is able to run upside down along the track. We also cannot assure you that we will be able to continue to develop products or complete any product development successfully or that any new products developed will receive market acceptance. If we are unable to respond effectively to any change in consumer preferences by commercialising new products that command a sustainable gross profit margin, our business, financial condition, results of operation and prospects could be adversely affected.

The Sino-US trade war may affect our business, financial conditions and results of operation.

Recently, the fear of the Sino-US trade war has already put a damper on global business sentiment. The recent tit-for-tat exchange of tariffs between the PRC and the US has roiled the global economy and global financial market. For the three years ended 31 December 2018 and the eight months ended 31 August 2019, our sale of products exported to the U.S. accounted for approximately RMB49.3 million, RMB47.6 million, RMB43.8 million and RMB45.2 million, respectively, representing approximately 23.0%, 18.4%, 15.7% and 21.5% of our total revenue, respectively, for the corresponding period. Other than our direct export sale to the U.S., through communications with the PRC Export-Oriented Wholesalers and information available to our Directors, our Directors are aware that some of our products sold to the PRC Export-Oriented Wholesalers would be onward exported to the U.S. during the Track Record Period.

On 17 May 2019, the Office of the United States Trade Representative announced the Fourth List, including toys, covering an annual trade value of approximately US$300 billion. On 1 August 2019, it was announced that the Fourth List will become effective on 1 September 2019; it was announced on 13 August 2019 that the effective date of imposing additional ad valorem duty on certain items included in the Fourth List, including certain toys, will be delayed until 15 December 2019 or removed. On 13 December 2019, the US and the PRC government officials announced that they have entered into a preliminary trade agreement, whereby the proposed US tariffs to be imposed on certain Chinese imported goods in the Fourth List, including toys, had been deferred. On 18 December 2019, at the direction of the president of the US, the US government determined to suspend indefinitely the imposition of the additional 15% ad valorem duty on certain Chinese imported goods in the Fourth List, including toys. Subsequently, on 15 January 2020, the US and the PRC government signed the phase one agreement aimed at easing the Sino-US trade war. Pursuant to such agreement, among others, US tariffs on approximately US$370 billion Chinese goods remain in place while avoiding the threat of further escalation. In addition, the US president said that the tariffs that remain would be removed pending progress on the second phase of negotiations. Accordingly, the imposition of proposed US tariff on toys exported from the PRC to the US shall continue to be suspended indefinitely, subject to further negotiation between the US and the PRC governments. On 6 February 2020, the Chinese officials announced that tariffs that the Chinese government imposed on some US goods since 1 September 2019 would be cut from 10% to 5%, and on others from 5% to 2.5%. Such reduction in tariffs has become effective since 14 February 2020, as Chinese officials' first response to the phase one agreement.

Even though the imposition of proposed US tariff on toys exported from the PRC to the US shall continue to be suspended indefinitely, subject to further negotiation between the US and the PRC governments, the phase one agreement entered into between the US and the PRC governments on 15 January 2020 requires the PRC government to commit in several matters, including but not limited to, the PRC purchasing US goods and services by US$200 billion over the next two years. The provisions of the deal between the US and the PRC governments are subject to an enforcement mechanism that requires several rounds of consultations. If two sides do not reach an agreement, the complaining party could take remedial actions in a proportionate way, e.g. re-imposing tariffs. In addition, the US president said that the tariffs that remain would be removed pending progress on the second phase of negotiations. Therefore, should the PRC government breach its commitment under the phase one agreement or the US and the PRC governments do not reach an agreement regarding an enforcement mechanism in the future, the US government may re-impose tariffs on

PRC goods, including toys. As such, such increase in ad valorem duty which would significantly damage global economy may lead to a decrease in the demand for our products bound for the US and our business, results of operation and financial condition may be adversely affected.

The recent outbreak of the contagious COVID-19 in the PRC and worldwide may have a material adverse effect on our business, results of operation, financial condition and prospects.

Beginning early 2020, the PRC and certain countries around the world encountered an outbreak of COVID-19, a highly contagious disease. In response to the severity of the COVID-19 outbreak, the Chinese officials have extended the Lunar New Year holiday by three days in the PRC to 2 February 2019. Shanghai, Suzhou, Guangdong Province, Zhejiang Province, Jiangsu Province, and Yunnan Province extended the Lunar New Year holiday until 9 February 2020. Subsequently, Jiangxi Province, Shangdong Province and Anhui Province announced resumption of work for non-essential enterprises would be delayed to 9 February 2020, while Hubei Province announced that enterprises in the province will be closed until 11 March 2020. As at 30 January 2020, the World Health Organisation declared global emergency. Many airlines suspended flights to the PRC as at the Latest Practicable Date.

As the Production Plants are located in Shantou City, Guangdong Province, the PRC, which is one of the areas in the PRC that encountered an outbreak of COVID-19, if the outbreak of COVID-19 is not contained in the near future, the local government of Guangdong Province may impose some restrictions on residents' movements which may result in the temporarily suspension of our production and sales in the PRC and/or delay in the delivery of raw materials from our suppliers in the PRC. In addition, if our employees are infected with COVID-19, quarantines or temporary closures of the Production Plants would be required. In such event(s), there is no assurance that our products would be delivered to our customers in a timely manner. Any delay in delivery of our products may reduce customer's loyalty and confidence.

We have contractual obligations to deliver our products as per the delivery time as set out in the relevant purchase orders or sales agreements with our customers (where applicable). Although there is no specific compensation clause in relation to the delay in delivery as set out in the purchase orders or sales agreements with our customers (where applicable), in the event of delay of delivery of our products to them, this would constitute as a breach of the purchase orders or sales agreement (where applicable) and our customer(s) may claim damages against us. In such event, we may need to discuss with each of them regarding the arrangement and compensation for damages that our customer(s) request from us (if any). In the worst scenario, our customers may commence proceedings against us if we fail to fulfil our contracts and deliver our products to them on time and fail to agree on the compensation sum. In such event, we may have to spend significant resources and time to defend ourselves. Ongoing concerns regarding the COVID-19, particularly its effect on travel, could negatively impact the manufacturing industry in the PRC as well as the overall economy of China and worldwide. Any economic downturn and travel restrictions as a result of the continuous COVID-19 may result in delay in payment of our customers and/or reduction or even cessation of placing purchase orders of our products by our customers, in particular overseas customers, to our Group. Completion of the construction of the New Production Plant may also be affected by the outbreak of COVID-19, where we may not be able to implement the Planned Expansion in accordance with our schedule. As such, this may prevent us from achieving the desirable and profitable results from the implementation of the Planned Expansion. In addition, our

Group's reputation may also be adversely affected, which may lead to other customers cease to maintain business relationship with us. Thus, we may loose our market share, and our business, results of operation, financial condition and prospects could be materially and adversely affected. For further details regarding potential impact on COVID-19 on us, please refer to the paragraph headed "Potential impact on COVID-19 on our operation in the PRC" under the section headed "Business" in this prospectus.

Apart from disruption in the operation of our Group as a result of the outbreak of the COVID-19, certain travel restrictions and other restrictions imposed by the PRC government in various areas in the PRC may also disrupt the financial reporting and audit process of our Company to a certain extent. In the event of there is delay in timing of on-field visit by the auditors of our Company to our premises, in particular those in the PRC, we may not be able to publish the financial results for the year ended 31 December 2019 in accordance with the timing requirement under the Listing Rules. Should we consider that we could not meet the timing requirement as set out in the Listing Rules, we will inform the Stock Exchange as soon as possible for the extension of the deadline for the annual result announcement and provide the information set out in the joint statement released by the Stock Exchange and the SFC regarding the results in light of travel restrictions related to the severe respiratory disease associated with a novel infectious agent on 4 February 2020 and publish an announcement, as soon as possible.

We are specialised in the design, development, manufacture and sale of high quality smart toys, which mainly comprising smart toy vehicles. If the demand for smart toy vehicles does not achieve anticipated growth or even decrease, our business and results of operation would be materially and adversely affected.

We principally design, develop, manufacture and sell high quality smart toys, which mainly comprising smart toy vehicles. During the Track Record Period, approximately 80.4%, 84.6%, 78.3% and 64.5% of our total revenue derived from the sale our smart toy vehicles, respectively. We expect such sales trend will continue in the foreseeable future. As a result, the sustainable growth of our business and our success depend on the overall demand for smart toy vehicles in general.

We have historically benefited from the demand in smart toy vehicles industry. According to the CIC Report, automobile manufacturers are one of the most common sources for the intellectual properties authorised toy market as customers are more willing to purchase well-designed and well-crafted car models. However, we cannot assure that the smart toy vehicles industry and our customer demand will achieve the expected growth, or even sustain. If the industry does not grow as fast as we anticipate or even shrinks, or our customer demand otherwise decreases, our business and results of operation could be materially and adversely affected.

We do not maintain long-term purchase contracts with most of our customers, and any disruption or termination of our business relationships with our major customers or fluctuations in their demand for our products may have a material adverse effect on our business, results of operation, financial condition and prospects.

We do not maintain long-term purchase contracts with most of our customers obliging them to place orders with us that would secure future revenue for us. Instead, we sell our products based on their purchase orders or sales agreements (where applicable). Our customers' purchase orders or sales agreements (where applicable) may vary from period to period, and it is difficult to forecast future order quantities. One of our major customers, namely Dickie, which engages us for manufacturing products under its own brands on ODM and OEM bases increased its purchase orders with us for a smart toy vehicles featuring certain characters of a motion picture related to cars as a result of the popularity of such motion picture in 2017. If our other customers decide not to purchase any of our products from us, decided to place fewer purchase orders of our products with us,change any of their products' suppliers or propose new terms of sales unacceptable to us, change their business models, change the raw materials used in their products or other industrial, political or environmental reasons or otherwise, our sales may decline if we are unable to find alternative purchasers in a timely manner. In such event, our business, financial condition, results of operation and growth prospects may be adversely affected.

Our sale of co-branded products during the Track Record Period relied on the popularity and market acceptance of intellectual properties used in the co-branded products, which depends largely on the public reception on the car models and the entertainment characters of the intellectual properties licensors and the marketing and promotional activities of the intellectual properties licensors.

We design and manufacture our co-branded products where we partner with reputable automobile manufacturers, toy brand licensor and entertainment character licensors. Our sales are therefore dependent on the strength and reputation of intellectual properties of the renowned automobile manufacturers, toy brand licensor and entertainment character licensors we partner with. In particular, for the three years ended 31 December 2018 and the eight months ended 31 August 2019, approximately 53.3%, 44.0%, 40.1% and 42.5% of our total revenue was derived from the sale of co-branded products consisting of brands of renowned automobile manufacturers, toy brand owner and entertainment character owners, respectively. The Famous Toy Brand Licensor is one of our major intellectual property licensors in the Track Record Period. Approximately 24.0%, 18.3%, 31.1% and 36.7% of our sale of co-branded products was derived from the products consisting of the brands of the Famous Toy Brand Licensor during the three years ended 31 December 2018 and the eight months ended 31 August 2019, respectively. We rely on third party owned licensed intellectual properties for the success of our co-branded products. The success of such products is to a certain extent dependent on the market acceptance of the car models, toy brand as well as entertainment characters that we are licensed to manufacture, and marketing and promotional activities initiated by the licensors. Our business is therefore subject to the business cycle of automobile industry, global entertainment industry and the promotional campaigns undertaken by the licensed automobile manufacturers, toy brand owner as well as entertainment character owners. In particular for entertainment characters, the lasting effect of the movies or television series on the sale of the products of our Group depends on the popularity of the movie or television series as well as the compatibility of the movie or TV characters to our product categories. Our toy products produced under the brands of renowned automobile manufacturers are concentrated on trademarks and trade dress associated with certain of their car models, while our toy products produced under the licensed toy brand as well as entertainment characters are concentrated on the respective brands and entertainment characters of licensors.

We cannot guarantee that third party owned licensed intellectual properties are able to maintain their popularity and commercial success against end consumers globally in the long term. If there are any changes in market perception or end consumers' preferences about certain models of automobile, toy brand and entertainment characters that we are licensed with, demand for our products may decrease and, thus, our business, financial condition and results of operation would also be materially and adversely affected.

We rely on intellectual properties licensors for co-branded products and any failure to renew licensing arrangements with our licensors may affect our business.

As at 31 December 2016, 2017 and 2018, 31 August 2019 and the Latest Practicable Date, we entered into more than 20 licensing agreements with intellectual properties licensors. The duration of the licences granted to us last usually one to three years. The performance of our co-branded products depends heavily on our continuing ability to renew the licensing agreements entered into between us and the intellectual properties licensors. If we fail to renew, or if such agreements are terminated prior to their expiry or if we fail to renew such agreements on the same or more favourable terms, our business, financial condition and results of operation may be materially and adversely affected.

Failure to comply with terms of licensing agreements entered into between us and major intellectual properties licensors may result in premature termination or infringement action by the licensors, which would materially and adversely affect our ability to develop, manufacture and sell our co-branded products in relation to licensed intellectual properties in certain territories or at all.

If we fail to comply with terms of the licensing 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, manufacture and sell our co-branded products in relation to licensed intellectual properties in certain territories or at all, which could in turn result in damage of our reputation and adversely affect our business, financial condition and results of operation.

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

Our sale is highly dependent on the success of our customers. In turn, our customers' success depend on various factors, including but not limited to consumer preference and market acceptance of our products, the level of discretionary consumer spending in countries in which our customers conduct business, as well as sales channels of our customers. Developments adverse to our major customers or our products could have an adverse impact on us.

During the Track Record Period, the Renowned Toy Specialty Retailer, being the parent company of entities traded under its name, had filed for bankruptcy in various jurisdictions, including both the US and Europe, and subsequently liquidated its businesses in such areas. Our sale of products to entities traded under the name of the Renowned Toy Specialty Retailer in different countries, in aggregate amounted to approximately 26.1%, 19.2%, 9.4% and 3.3% of our total revenue during the Track Record Period, respectively. As a result of the Retailer's Liquidation, our sale to the Renowned Toy Specialty Retailer US and the Renowned Toy Specialty Retailer Netherlands were affected adversely and materially in particular.

We received approximately RMB1.3 million from the Renowned Toy Specialty Retailer US during the year ended 31 December 2018. Approximately RMB4.4 million of the amount receivables from the Renowned Toy Specialty Retailer US was written off during the year ended 31 December 2018 and afterwards there was no outstanding amount due from the Renowned Toy Specialty Retailer US as at 31 December 2018. The Renowned Toy Specialty Retailer US was subsequently liquidated and did not conduct any business with us during the eight months ended 31 August 2019 and as at the Latest Practicable Date. In addition, in respect of the Renowned Toy Specialty Retailer

Netherlands, approximately RMB1.4 million was received from the Renowned Toy Specialty Retailer Netherlands during the year ended 31 December 2018. Approximately RMB25,000 of the amount receivables from the Renowned Toy Specialty Retailer Netherlands was written off during the year ended 31 December 2018 and afterwards there was no outstanding amount due from the Renowned Toy Specialty Retailer Netherlands as at 31 December 2018. Similarly, the Renowned Toy Specialty Retailer Netherlands was subsequently liquidated and did not conduct any business with us during the eight months ended 31 August 2019 and as at the Latest Practicable Date.

Despite there has been restructuring of entities traded under the name of the Renowned Toy Specialty Retailer in the US and Europe, its business plans in the US and Europe remained uncertain as at the Latest Practicable Date. We cannot assure you that our relationship with entities traded under the name of the Renowned Toy Specialty Retailer will be affected or not. For further details, please refer to the paragraph headed "Our customers" under the section headed "Business" in this prospectus.

Similarly, if there are any other developments adverse to our other major customers such as any significant changes in the operations or financial condition of our major customers, including consolidation or change of ownership, restructuring or liquidation, we may experience a material adverse effect on our business, financial condition and results of operation. Any significant changes in the operations or financial condition of our major customers, including liquidity problems or restructuring, could cause us to limit or discontinue business with such customers, or require us to assume more credit risk relating to receivables from such customers, which could have a material adverse effect on our business, financial condition and results of operation.

Our business is dependent on the strength of our brand and product design, and market perception of our brand and product design. If we fail to maintain and enhance our brand and product design, our business, results of operation and prospects may be materially and adversely affected.

We believe that our brand is well received by our customers, and our business and financial performance are substantially dependent on the strength and the market perception of our brand. We undertake design and development of products in-house to build a brand with capability in product innovation and design. Our Directors believe that the notable awareness of our brand as well as product design contributes to higher recognition amongst customers globally as well as within the PRC, thus lower marketing costs. Therefore, we believe that maintaining and enhancing our brand as well as product design are critical to expand and retain our customer base.

Many factors, some of which are beyond our control, may negatively impact our brand image and reputation, such as:

- any customer complaints or negative publicity relating to our products quality, delivery times, product returns procedures, customer data handling and security practices;
- alleged misconduct or other improper activities committed by our employees; and
- any fraudulent, false or misleading information relating to our products.

We cannot guarantee that negative reports about our business or our brand will not occur in the future and serious damage to our brand, public image, reputation and business may follow as a result. If we are unable to maintain or enhance our brand image, or our brand image is negatively damaged or if our brand is no longer accepted by audience, our business, financial condition and results of operation may be adversely and materially affected.

Failure to protect the intellectual property rights of our Group and/or our licensors may adversely affect our business and results of operation.

As at the Latest Practicable Date, we registered various trademarks in different jurisdictions, including 1 and 20 trademarks in Hong Kong and the PRC, respectively. Further details are set out in the sub-paragraph headed "2. Intellectual property rights of our Group" under the paragraph headed "B. Further information about the business of our Group" in Appendix IV to this prospectus. We regard our brand, trademarks, copyright in our brand as critical to our success. We have developed into a strong and well-recognised brand in the toy manufacturing industry since 2011. We believe that many of our customers approach us for our products because of our reputation and strong brand image. We also believe that our customers are attracted to our products because of the high quality of the products designed and developed by our in-house team. Our continuing growth of our products therefore depends on our ability to protect and promote our brand, trademarks, copyright and other intellectual property rights.

We have not undertaken intellectual property protection measures in each territory where we distributed our products. Given the large geographic coverage to which we export 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. Preventing such unauthorised use of intellectual property is inherently difficult. If we are unable to prevent such unauthorised use, competitors and other third parties may drive customers and consumers away from us, which could harm our reputation and materially and adversely affect our results of operation.

We generally rely on trademark and copyright laws to protect our intellectual property rights. However, the validity, enforceability and scope of protection of intellectual property in toy manufacturing industries could be uncertain. In particular, the laws in certain other countries may not offer intellectual property protection to the same extent as the laws of Hong Kong. We cannot assure that the intellectual property rights of our brand or products are or will be adequately protected or such intellectual property rights will not be challenged by third parties or found to be invalid or unenforceable. There is no guarantee that our licensors would possess and retain the exclusive ownership of all rights, title and interest in intellectual property rights that we may apply them in products design and development free from claims of third parties. During the Track Record Period and up to the Latest Practicable Date, there had not been any pending or threatened material claims made by us against third parties, with respect to the infringement of intellectual property rights owned by us. In the future, if any suspected infringement arises, litigation may be necessary to enforce our Group's intellectual property rights and to protect our intellectual property rights. Future litigation could result in substantial costs and diversion of resources.

Further, in general, copyrights, designs, patents, trademarks or other intellectual property rights associated with our co-branded products consisting of brands of renowned automobile manufacturers, toy brand owner and entertainment character owners, moulds and drawings prepared by us upon our licensors' request are owned by our licensors. We cannot guarantee that our licensors' designs and other intellectual property rights would not be misappropriated by third parties. If we cannot adequately safeguard our licensors' intellectual property rights, our licensors could terminate the respective licensing agreements, or our customers may reduce or discontinue their purchase orders of our products with us, which could have a material adverse effect on our business, results of operation and reputation.

We may unknowingly infringe the intellectual property of third parties.

Our success depends, to a certain extent, on our ability to use our brand, trademarks, copyright without infringing third parties' intellectual property rights. We may unknowingly infringe the intellectual property of third parties. During the Track Record Period and up to the Latest Practicable Date, save for the IP Infringement Lawsuit as disclosed under the paragraph headed "Intellectual property rights" under the section headed "Business" in this prospectus, there had not been any pending or threatened material claims with respect to the infringement of intellectual property rights owned by third parties made against us. Defend against any infringement claims made against us could be costly and divert the attention of our management and staff away from the day-to-day operations. In the future, if similar suspected infringement arises, our business, financial condition, results of operation and prospects could be adversely affected.

We may experience delays or defaults in payment by our clients, which may adversely affect our cash flow and working capital, financial condition and results of operation.

We face the risk that our clients may delay their payment with us or fail to make payment as scheduled. Our trade receivables that was due over one year or more as at 31 December 2016, 2017 and 2018 and 31 August 2019 were approximately RMB0.2 million, RMB0.2 million, RMB0.3 million and RMB0.9 million respectively. As at 31 December 2018, approximately RMB4.4 million of our accounts receivable from the Renowned Toy Specialty Retailer US was written-off, due to the Retailer's Liquidation.

There is no guarantee that our other clients would not delay their payment with us or fail to make payment as scheduled. Delays in receiving payments from or non-payment by our clients may affect our cash flow and ability to meet our working capital requirement. We cannot assure you that payments from clients will be made in a timely manner or at all, or that delays or defaults in payments will not affect our financial condition and results of operation.

We had negative cash flow from operating activities for the eight months ended 31 August 2018.

We had negative cash flow from operating activities of approximately RMB66.7 million for the eight months ended 31 August 2018, which was a combined result of approximately RMB61.4 million of cash used in operations and income tax paid of approximately RMB5.3 million. The cash used in operations was primarily attributable to (i) relatively lower amount of profit before income tax of approximately RMB12.6 million; (ii) increase in inventory of approximately RMB31.7 million mainly due to the increase in raw materials for sales during our peak season between June and

December of the year; (iii) increase in trade receivables of approximately RMB49.2 million for the eight months ended 31 August 2018 due to the same reason as increase in inventory as mentioned; and (iv) an increase in prepayments and other receivables of approximately RMB21.6 million.

For further details, please refer to the paragraph headed "Liquidity and capital resources" under the section headed "Financial information" of this prospectus. We cannot assure you that we will not experience negative cash flow from operating activities in the future. Negative cash flow from operating activities requires us to obtain sufficient external financing to meet our financial needs and obligations. If we are unable to do so, we may default on our payment obligations and may not be able to develop our projects as planned. As a result, our business, financial condition and results of operation may be materially and adversely affected.

If we fail to effectively manage our inventories or estimate accurately the demand for our products, we may face a risk of inventory obsolescence which may materially and adversely affect our business, financial condition and results of operation.

Our inventories primarily consist of (i) raw materials such as plastic resins, electronic parts, printed box, pigment and chemical materials; (ii) work in progress mainly comprises semi-finished products; (iii) finished goods which are our toy products ready to be sold; and (iv) packaging materials and consumables. As at 31 December 2016, 2017, 2018 and 31 August 2019, our inventories amounted to approximately RMB22.2 million, RMB32.1 million, RMB31.2 million and RMB41.6 million, respectively. During the Track Record Period, the average inventory turnover days were approximately 63.0 days, 59.4 days, 63.1 days and 67.1 days respectively.

We cannot assure you that we will not experience any slow movement of inventories, which may result from our reduced sales due to change in consumer preference with our design, research and development, economic downturn, or incorrect estimation of the market demand for our products. As such, if we fail to manage our inventories effectively or are unable to dispose of excess inventories, we may face a risk of inventory obsolescence and/or significant inventory write-downs, which may impose pressure on our operating cash flow, and materially and adversely affect our business, financial condition and results of operation. For further details, please refer to the sub-paragraph headed "Inventories" under the paragraph headed "Description of certain items of combined statements of financial portion" under the section headed "Financial information" of this prospectus.

Any failure to maintain an effective quality control system could have material adverse effect on our business, results of operation, financial condition and prospects.

We believe an effective quality control system is crucial to our success and a key factor to maintain our customers' loyalty and attract new customers. The effectiveness of our quality control system in turn depends on various factors, including but not limited to, the design of our quality control procedures, our quality control and training programmes and our ability to ensure that our employees adhere to our quality control policies and guidelines. We cannot assure you that our quality control system will be effective in maintaining our product quality. Any significant failure or deterioration of our quality control systems could result in customer complaints, return of goods or even loss of customers, which in turn could have a material adverse effect on our business, results of operation, financial condition and prospects.

Our production and sales may be affected by seasonality.

We believe that there is a seasonal pattern in the spending behaviour of customers, in particular overseas customers, which may affect the results of our operation. Our shipment peak season takes place between June and December of each year in which we achieve significant higher sales than other months to meet the Christmas and New Year holiday seasons. In order to get prepared for our shipment peak season, utilisation rate of our production facilities would be subject to the demand of our products during the year. During the non-peak season, we may not be able to optimise the use of our production facilities, while fixed overhead costs may not reduce proportionately. On the other hand, our ability to accept more purchase orders of our products from our customers may be restricted by limited production capacity during the peak season. For the year ended 31 December 2018, our sales generated between June and December accounted for more than 75.0% of our total revenue of the year, in particular, our revenue generated in the last four months of 2018 accounted for approximately 46.4% of our total revenue for the year ended 31 December 2018.

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

We rely on our sales to our customers in North America, Europe, Oceania and Asia (other than the PRC).

Our customers are located around the world, especially in North America, Europe, Oceania and Asia (other than the PRC). During the Track Record Period, sales attributable to markets in North America, Europe, Oceania and Asia (other than the PRC) represented over 40% of our total revenue in each period.

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

Brexit may have adverse consequences for our business, financial condition, operating results and our ability to implement our growth strategies.

On 23 June 2016, the UK held a referendum pursuant to which the UK electorate voted in favour of its withdrawal from the EU ("**Brexit**"). On 29 March 2017, the UK government formally started the complex withdrawal negotiation with the EU, and the UK formally left the EU on 31 January 2020.

While the UK has withdrawn from the EU, there will be a transitional period which is due to end on 31 December 2020 during which the UK will continue to follow rules of the EU. Relationship between the UK and the EU following Brexit, including the final outcome of the negotiation between the UK and the EU, may have significant consequences for our business, particularly with respect to the sales of our products in the UK and our ability to grow our UK business.

For the three years ended 31 December 2018 and the eight months ended 31 August 2019, our sale of products exported to the UK accounted for approximately RMB17.1 million, RMB19.2 million, RMB10.3 million and RMB8.6 million, respectively, representing approximately 8.0%, 7.4%, 3.7% and 4.1% of our total revenue, respectively, for the corresponding period. The uncertainty of the UK economy and the fluctuation of currency exchange rate may be risky to our sales to the UK and also to our financial results. In the event that our sales are being affected by Brexit, we may take time to recover if we lose such businesses and may involve additional cost or investment to maintain our sales to the UK.

There can be no assurances as to the extent to which trade restrictions or new regulatory burdens may be imposed on our UK sales following Brexit. The nature of the arrangements that will be put in place to define the relationship between the UK and the EU following Brexit, the extent to which the UK will continue to apply laws that are based on EU legislations and the consequential impact on our business, operating results and financial condition remain highly uncertain.

Additionally, following the announcement of the outcome of the referendum on 24 June 2016, equity and other financial markets experienced significant declines in the UK, the EU, Hong Kong and other locations. GBP experienced a significant decline in exchange rate against most major currencies, including Euro and Hong Kong dollars. There can be no assurances as to whether these declines will persist in a manner that adversely affects our sales to the UK or, more broadly, our financial condition and operating results. Equity and currency markets may remain volatile for some time following the Brexit, particularly as negotiations between the UK and the continuing members of the EU proceed and become public.

The announcement of the referendum results and the prospect of an eventual Brexit have already created a high level of business and financial uncertainty. It cannot be ruled out that other EU countries will not follow the UK's example. There can also be no assurances as to how the general economic, financial and political conditions in the UK, Europe or globally may be affected following Brexit, nor the impact such conditions may have on factors that affect our business, operating results and financial condition.

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

Supplies of raw materials are subject to a variety of factors that are beyond our control, including interruptions in the supplier's business operations, global market supply and demand, industry conditions etc. whereas the quality of raw materials is dependent on the supplier's production capabilities, production facilities and quality control systems. Our ability to complete a purchase order of our products on time for our customers is dependent on the timely delivery and the quality of raw materials. There is no assurance that our suppliers will be able to supply and deliver the required raw materials to us in a timely manner or that the raw materials they supply to us will be not defective or substandard. Any delay in the delivery of raw material or any defect in the raw materials supplied to us may materially and adversely affect or delay our production schedule. In such circumstances, we may lose customer's loyalty and confidence. This may also harm our reputation and our results of operations and financial condition may be materially and adversely affected.

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, financial condition and results of operation.

In the procurement and sales of our products, there are often time lag 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 being harmed as not 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 the three years ended 31 December 2018 and the eight months ended 31 August 2019, our creditors' turnover days were approximately 32.2 days, 26.4 days, 34.6 days and 48.1 days, respectively, while our debtors' turnover days were approximately 60.5 days, 68.2 days, 98.7 days and 104.9 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.

Our business may be affected by any changes or developments of regional or global political, economic or social conditions, in particular, the change in a particular country's trade policy.

Our business is essentially linked to the changes or developments of regional or global political, economic or social conditions. In particular, any changes in a particular country's trade policy could trigger retaliatory actions by affected countries, potentially resulting in a trade war, which could increase the cost of goods and thus reduce customer demand for products if parties having to pay the tariffs increase their prices, or trading partners limit their trade with a particular country. In the event that there are changes or developments of regional or global political economic or conditions, our Group's results of operation and financial position may be adversely affected.

Fluctuation in foreign currencies could have impact on our sales.

We believe that the fluctuations in currencies have a direct impact on our customers' demand of our products, which could in turn affect our sales performance and results of operation. Our sales were mainly denominated in US dollars. As such, as a result of the depreciation of domestic currency of our targeted markets against USD, our products may become relatively more expensive and our customers may reduce their purchase orders of our products, which in turn adversely affected our sales. If there is any material fluctuations in the domestic currency of our targeted markets and we cannot mitigate such impact by enhancing our sales and market and stimulating demand for our products in other regions, our business, financial condition and results of operation may be adversely affected.

Our financial performance may be affected by fluctuations in raw material prices as we may not always be able to pass on the increase in raw material costs to our customers.

Our business and profitability may be affected by fluctuations in the prices of raw materials. As our business continues to grow, we experienced an increasing demand for raw materials, such as different types of plastic materials and metal parts during the Track Record Period. Our total costs of raw materials and goods used accounted for approximately 63.5%, 64.2%, 66.0% and 65.7% of our total cost of sales for the three years ended 31 December 2018 and the eight months ended 31 August 2019, respectively.

Although we monitor the price of raw materials and adjust our price quotations accordingly from time to time, as our quotations do not specify any provision for us to renegotiate if there is a significant fluctuation in raw materials price, if market prices of our products fail to timely respond to the change of raw material prices, we may not be able to pass on the increase in the prices of raw materials to our customers and sell our products at prices acceptable to our customers. In addition, should there be an increase in the raw material prices and we respond by adjusting our price quotation, our customers may switch their suppliers and no longer engage us to be a supplier for them. There is no guarantee that we will be able to pass all or any of the increased raw materials costs to our customers in a timely manner or at all. An increase in raw material prices that we are unable to pass on to our customers will increase our costs and materially and adversely affect our profit margin. In any such event, our business, financial condition, results of operation and growth prospects may be materially and adversely affected.

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

Our business operations require manual labour work and we had 993 employees in total as at 31 August 2019, of which, over 700 of them were engaged in our production. We believe our future performance depends on the ability to sustain cost effectiveness. There is no guarantee that our supply of labour and labour cost will continue to be stable. If we fail to retain our existing labour and/or recruit sufficient labour in a timely manner, we may not be able to accommodate sudden increases in demand for our products or our expansion plans. If we are not able to manufacture and deliver our products on schedule or if we are unable to implement our expansion plans, our business, financial condition, results of operation and prospects would be materially adversely affected. Furthermore, if there is a significant increase in labour cost, the cost of our business operation would increase and our profitability would be adversely affected.

We rely on mould manufacturers for the supply of moulds, and any shortage of, or delay in, the supply of moulds may significantly impact our business and results of operation.

According to the CIC Report, approximately 90% of the toy manufacturers purchase moulds from third-party companies, and only a few OBM companies produced moulds by themselves. As the process of dealing with a mould factory is complicated, the cooperation between toy manufacturers and mould factories tend to be long term in general. Further, it is common for toy manufacturers to cooperate with only one or a few mould manufacturers as mould manufacturing is complicated and requires close working relationship between toy manufacturers and mould manufacturers. As we place emphasis on the quality of our products, we believe that the quality of moulds, in particular the precision thereof, is very important. We also sourced our moulds for production of our products externally, during the Track Record Period. As such, we rely on the ability and efficiency of mould manufacturers to supply moulds to us.

There is no assurance that we are able to maintain business relationship with mould manufacturers, or that there will not be any unfavourable changes in our current arrangements, such as a substantial increment in price or a substantial reduction of quantities supplied to us. If any of the above happens, our business operation may be hindered, which would adversely affect our business, financial condition and results of operation may be materially and adversely affected.

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

Due to the nature of our operations, we are subject to the risks of our employees being exposed to industrial-related accidents. We cannot assure you that industrial accidents, whether due to malfunctions of machinery or other reasons, will not occur in the future at our manufacturing facilities. In such event, we may be liable for loss of life and property, medical expenses, medical leave payments and fines and penalties for violations of applicable PRC laws and regulations. In addition, we may experience interruptions in our operations and may be required to change the manner in which we operate as result of governmental investigations or the implementation of safety measures due to the accidents. Under such circumstances, our business and financial performance will be adversely affected.

We depend on our senior management and key employees to grow and operate our business. If we were unable to successfully retain the services of our current key personnel or hire, train and retain senior executives and other skilled employees, our ability to develop and successfully market our products could be harmed.

The growth and success of our business have depended significantly on certain members of our senior management team, in particular Mr. Yu and Mr. Pui. For the detailed biography of our Directors and senior management, please refer to the section headed "Directors and senior management" in this prospectus. If we were to lose the services of Mr. Yu or Mr. Pui or any other of our senior management for any reason, we may not be able to find suitable replacements for them. In addition, if any Director, any member of our senior management team or any of our other key personnel were to join a competitor or carry on a competing business, we may lose key professionals and staff members. Furthermore, as our business continues to grow, we will need to recruit and train additional qualified personnel. If we were unable to successfully retain the services of our current key personnel or hire, train and retain senior executives and other skilled employees, our ability to develop and successfully market our services may be harmed and our business and prospects may be adversely and materially affected.

If we fail to, or if we are required to take actions that are time-consuming or costly, obtain or maintain all required licences, permits and approvals, our business operations may be materially and adversely affected.

We are required to obtain and maintain applicable licences, permits and approvals from different regulatory authorities in order to conduct our business. The government authorities may continue to pass new rules regulating the toy manufacturing industry. They may require us to obtain additional licences, permits or approvals so that we can continue to operate our existing or future business or otherwise prohibit our operation of the types of businesses to which the new requirements apply. In addition, new regulations or new interpretations of existing regulations may increase our costs of conducting business and prevent us from efficiently delivering services and expose us to potential penalties and fines. In addition, our existing licences may expire without proper renewal or be revoked due to violations of relevant licensure maintenance requirements. If any of our entities is deemed by governmental authorities to be operating without appropriate permits and licences or outside of their authorised scopes of business or otherwise fail to comply with relevant laws and regulations, we may be subject to penalties and our business and results of operation may be materially and adversely affected.

Our insurance coverage may not be adequate to cover all the risks related to our operations.

Our operations are subject to various operational risks beyond our control that could result in material disruptions and adversely affect our results of operation, including:

- production interruptions caused by operational errors, electricity outages, raw materials shortages, failure of equipment and other production risks;
- operating limitations imposed by environmental or other regulatory requirements;
- social, political and labour unrest;
- environmental or industrial accidents; and
- catastrophic events such as wars, riots, power outage, public disorder, civil commotions, fires, earthquakes, floods and other natural calamities, epidemics, terrorism, whether local or nationwide, or incidents such as industrial accidents, strikes or other labour disputes and disruptions of public infrastructure, such as roads, ports or utilities.

As of the Latest Practicable Date, we maintain insurance policies in relation to our raw materials, production plants, machinery and equipment and employees' compensation. We are insured against losses arising from fire, water damage, typhoon and other natural calamities in respect of our production plants. We had not made any material claims under our insurance policies and have not experienced any material business interruptions during the Track Record Period and as at the Latest Practicable Date. We cannot assure you that casualties or similar or other accidents will not occur or that our insurance coverage would be adequate to cover all our potential losses associated with major accidents. In the event that our insurance policies cannot adequately compensate our losses sustained as a result of damage to items covered or howsoever incurred, we would have to pay for the difference ourselves and our cash flow and liquidity could be adversely affected.

In addition, our products may contain latent defects or flaws, any flaws discovered in our products after delivery could result in loss of revenue or delay in revenue recognition, damage to our reputation and our relationship with customers and increased service cost. If our products proved to be defective, we may be subject to claims for compensation and may incur significant legal costs regardless of the outcome of any claims of alleged defect. As at the Latest Practicable Date, we maintain product liability insurance. In the event that we suffer a loss to our products in an amount that exceeds our insurance coverage, we may not be able to recover such amount exceeding our insurance coverage, and our business, financial condition and results of operation may be adversely affected.

Our production capacity might not be able to meet with changing market conditions.

We cannot assure you that our production capacity will be able to meet our obligations in the future. Furthermore, we may not be able to expand our production capacity in response to the changing market conditions. If we fail to meet demand from our customers, we may lose our market share.

Due to the diversity of our products, and given that there is no common production bottleneck and our production lines can be modified to accommodate the production of a wide variety of products, our Directors consider it difficult to estimate our production capacity and utilisation for all different products produced by us during the Track Record Period. Please refer to the sub-paragraph headed "Production capacity and utilisation rate" under the paragraph headed "Production process and production facilities" under the section headed "Business" in this prospectus for further details regarding our production capacity and utilisation rate during the Track Record Period. Moreover, our ability to optimise the use of our production facilities is also affected by seasonal consumption pattern of our customers.

We may face disruptions in our production.

Our revenue is dependent on the continued operation of our production facilities. Our production process is subject to operational risks beyond our control including, amongst others, fire, breakdown, failure or substandard performance of our equipment and machinery, power shortage, labour strikes, natural disasters and any interruption in our operations as a result of any failure to comply with all applicable laws, regulations and standards in the PRC. With the outbreak of the contagious COVID-19 in late December 2019, there have been reports on occurrences of COVID-19 across the PRC, including confirmed human cases and deaths. As a result, the Chinese officials have extended the Lunar New Year holiday by three days in the PRC to 2 February 2020. For further details, please refer to the paragraph headed "Potential impact of COVID-19 on our operation in the PRC" under the section headed "Business" in this prospectus.

Frequent or prolonged occurrence of any of the aforesaid events, in particular the outbreak of the COVID-19 in the PRC, may have a material adverse effect on our business, financial condition and results of operation. If there is any damage to our production facilities, we may not be able to remedy such situations in a timely and proper manner, and our production and hence our ability to provide our products in a timely manner could be materially and adversely affected. Any breakdown or malfunction of any of our equipment could cause a material disruption of our operations. Any such disruption in our operations could cause us to reduce or halt our operation, adversely affect our business reputation, increase our costs of production or require us to make unplanned capital expenditures, any one of which could materially and adversely affect our business, financial condition and results of operation.

There is no assurance that we will be able to successfully implement our business plans.

We seek to maintain our position in the toy design and manufacturing business both globally and in the PRC and continue to increase our market share. Details of our business plans are set out in the paragraph headed "Business strategies" under the section headed "Business" in this prospectus.

The successful implementation of our business plans depends on a number of factors which may or may not be within our control, including but not limited to, the growth and development of toy manufacturing industry in the PRC, the effectiveness of our marketing efforts, availability of funds to finance our strategic plan, market condition, our ability to manage our business growth strategically and effectively, our ability to enhance our marketing capabilities, competition and government policy. Even if we effectively and efficiently implement our business plans, we may still be subject to various operational risks and we cannot guarantee that there will not be (i) any failure to operate at the expected designed capacity or efficiency; (ii) any insufficiency in purchase orders for our products or supply for the raw materials for our additional production capacity; (iii) any difficulties in recruiting and retaining adequate skilled and experienced staff with technical expertise; or (iv) any other unexpected events or factors beyond our control. Any event of such kind may prevent us from achieving the desirable and profitable results from the implementation of our business plans and may have a material and adverse effect on our profitability and prospects.

The future capital expenditure of our Group for the purchase of machinery and equipment may result in an increase in our depreciation expenses.

Our Group currently plans to use approximately HK$23.9 million of the net proceeds from the Global Offering to acquire new machinery, including plastic injection moulding machines, for implementation of the Planned Expansion. For more details, please see the paragraph headed "Business strategies" under the section headed "Business" and the section headed "Future plans and use of proceeds" of this prospectus. For the year ended 31 December 2019, we utilised internal resources for the capital expenditure of approximately RMB7.2 million for the acquisition of additional plastic injection moulding machines and other production machines. Arising from these additional purchases may increase our depreciation expenses, and may therefore adversely affect our Group's future results of operation and financial performance. Furthermore, any unexpected requirement for the acquisition of additional machinery would have a negative impact on the cash level of our Group and the additional depreciation expenses may adversely affect our Group's financial performance in the future.

Our non-compliances with relevant social insurance and housing provident fund contribution laws and regulations in the PRC could lead to imposition of fines and penalties.

During the Track Record Period, certain of our PRC subsidiaries did not fully make the social insurance contribution for all of its employees in compliance with the provisions of the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), and did not fully make housing provident fund contributions for all of its employees in compliance with the Regulations on the

Administration of Housing Provident Fund of the PRC (《住房公積金管理條例》). Please refer to the sub-paragraph headed "Non-compliance incidents" under the paragraph headed "Legal proceedings and compliance" under the section headed "Business" in this prospectus for further details of our historical non-compliances.

If the relevant authority imposes any fine and/or penalty on us for any of our non-compliance incidents, or demands us to take any remedial steps which may lead to the incurrence of substantial expenses, our financial condition and results may be materially and adversely affected. In addition, in the event that the relevant authority later strengthens the enforcement of the relevant laws and regulations on social insurance and housing provident fund in respect of the enterprises within its jurisdiction and accordingly considers it necessary to make retrospective contribution to social insurance fund and housing provident fund contributions, or if provisions are required to be made, the amount of which may be significant, our business, financial condition and results of operation may be materially and adversely affected. We cannot assure that employees of our PRC subsidiaries, who have consented not to take part in the social insurance contribution and/or the housing provident fund, may within the statutory limitation period lodge complaints with the relevant authorities against us in respect of our failure to make contribution to the social insurance fund and/or the housing provident fund, or initiate a claim against or disputes with us.

Risks relating to conducting our operations in Hong Kong.

Conducting business in Hong Kong involves certain political risks, such as risks relating to changes in Hong Kong governmental policies, changes in Hong Kong laws or regulations or their interpretation, changes in exchange control regulations, potential restrictions on foreign investment and repatriation of capital, measures that may be introduced to control inflation, such as interest rate increases, and changes in the rates or method of taxation. In addition, our Group's operations in Hong Kong are exposed to the risk of changes in laws and policies that govern operations of Hong Kong based companies. In the event that there is a downturn in the economy of Hong Kong, any recurrence of recession in Hong Kong, deflation, any changes in Hong Kong's currency policy or there are changes in laws and policies governing our Group's business, our Group's business operations and hence financial results and financial position would be adversely and materially affected.

RISKS RELATING TO OUR INDUSTRY

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

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

The toy manufacturing industry is highly competitive and increased competition could result in pricing pressure and loss of market share.

According to the CIC Report, despite the Chinese toy industry is large in scale and is growing rapidly, industry concentration in overall is much lower than that of developed countries. Most of the toy manufacturers are small and medium scaled which means the market is increasingly competitive. In other words, the toy manufacturing industry is highly fragmented. In addition, according to the CIC Report, there are increasingly industry shuffling due to, among others, continuous Sino-US trade war, stricter foreign and domestic safety controls and rising labour costs in the PRC. As such, small and medium-sized manufacturers with weak competitiveness will be eliminated soon and subsequently industry concentration will increase in long-term in the PRC. Our brand and our third party licensed brand compete with other local, national and global brands. Some of our competitors may have greater financial, marketing, management and other resources than we do.

There is no assurance that we can maintain our competitive edges over our competitors. We cannot assure you that our strategies will remain competitive or that they will continue to be effective in the future. If we are unable to compete effectively, successfully and at reasonable cost against our existing and future competitors, increased competition could result in pricing pressure and loss of our market share, thus, our business, prospects, financial condition and results of operation could be materially and adversely affected.

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

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

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

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

During the Track Record Period, we sold our products directly to over 300 customers in aggregate in over 50 countries across six continents. According to the CIC Report, the global toy market was expanded at a moderate speed from 2014 to 2018, with the retail sales value of toy markets grew from approximately US$79.3 billion in 2014 to approximately US$90.4 billion in 2018, representing a CAGR of approximately 3.3%. Due to the favourable economic condition in the foreseeable years, the market growth is expected to be accelerated. Under this circumstance, parents have become more willing to spend more money to purchase toys for their children. As our toy products are sensitive to general and local economic conditions, the demand of our customers may be affected by any adverse changes in economic conditions (such as economic downturns) globally. Any downturn in the global economy in general could reduce our customers' demand for the toy products we sell and it may have material adverse impact on our business, financial condition and results of operation.

RISKS RELATING TO CONDUCTING OUR OPERATIONS IN THE PRC

Any changes in the political, social and economic conditions in the PRC may adversely affect our business.

Our financial condition and prospects are to a significant degree subject to the political, social and economic conditions of the PRC, as our assets are located in the PRC and a significant amount of revenue is derived from operations that take place in the PRC. Any changes in the political, social and economic conditions of the PRC may adversely affect our business viability. The PRC government has undergone various reforms of its economic systems which have resulted in economic growth for the PRC over the past few decades. However, many of the reforms are unprecedented or experimental, and are expected to be refined and modified from time to time. In addition, the scope, application and interpretation of laws relating to such reform may be uncertain. Political, economic and social factors may lead to further refinement or adjustment of the reform measures. Therefore, we cannot predict whether changes in the economic, political and social conditions in the PRC will lead to continued growth or whether any such growth will be in a geographic region or economic sector beneficial to us. Moreover, even if new policies may benefit our industry in the long term, we cannot assure you that we will be able to successfully adjust to such policies. As our operations and assets are located in the PRC, we depend heavily on general economic conditions in the PRC for our continued growth. Therefore, if the PRC's economic growth slows down or if the PRC economy experiences a recession as a result of any changes in the PRC's political, economic and social conditions, the growth in demand for our products may be reduced or become minimal, and thus may have a material and adverse effect on our future growth and results of operation.

Acts of God, acts of war, epidemics and other disasters could affect our business.

Our business is subject to the general and social conditions in the PRC. Acts of God such as natural disasters, epidemics, and other disasters which may materially and adversely affect the economy, infrastructure and livelihood of the people of the PRC are beyond our control. Our business, results of operation and financial condition may be materially and adversely affected if these natural disasters occur.

Apart from natural disasters, epidemics may materially and adversely affect people's livelihood and even threaten people's lives. Any outbreak of an epidemic is beyond our control and there is no assurance that epidemics like severe acute respiratory syndrome, avian flu or the human swine flu will not happen again. With the outbreak of the contagious COVID-19 in late December 2019, there have been reports on occurrences of COVID-19 across the PRC, including confirmed human cases and deaths. As a result, the Chinese officials have extended the Lunar New Year holiday by three days in the PRC to 2 February 2020. In the event of the outbreak of the COVID-19 cannot be contained, or occurrence of other epidemic in the PRC, our business, results of operation and financial conditions may be materially and adversely affected.

Acts of war and terrorist attacks may cause damage or disruption to us, our employees, facilities, markets, suppliers and customers, any of which may materially and adversely affect our revenue, cost of sales, results of operation, financial condition or Share price. Potential war or terrorist attacks may also cause uncertainty and cause our business to suffer in ways that we cannot currently predict.

There are uncertainties associated with the implementation, interpretation and enforcement of the PRC legal system.

Our business and operations in the PRC are governed by PRC law. The PRC is a civil law jurisdiction based on written codes and statutes. Unlike common law jurisdictions, in the PRC, prior court decisions may be cited as persuasive authority but do not have binding legal force. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters in general such as foreign investment, corporate organisation and governance, commerce, taxation and trade in order to establish a comprehensive legal system conducive to investment. However, the implementation, interpretation and enforcement of these statutes may involve greater uncertainty compared to those in the common law jurisdictions due to a relatively short legislative history and the limited number and non-binding nature of court cases. Depending on the government agency and court or how an application or a case is presented to such agency or court, we may be subject to less favourable interpretations of the law than those imposed on our competitors. In addition, litigation in the PRC may be protracted and result in substantial legal costs and the diversion of our resources and the attention of our management. Similarly, legal uncertainty in the PRC may limit the legal protections available to potential investors. We cannot predict the effects of future legal developments in the PRC, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national law. As a result, there is substantial uncertainty as to the legal protection available to potential investors.

Certain amount of our revenue is denominated in Renminbi, which is not freely convertible for capital account transactions and may be subject to exchange rate volatility.

We require access to foreign currency to pay dividends to our Shareholders. However, certain amount of our revenue is denominated in Renminbi, which currently is not a freely convertible currency. Under the PRC foreign exchange rules and regulations, payments of current account items, including profit distributions, interest payments and expenditures related to business operations, are permitted to be made in foreign currencies without prior government approval but are subject to certain procedural requirements. Strict foreign exchange controls continue to apply to capital account transactions. Capital account transactions must be approved by or registered with SAFE. Repayments of loan principal, direct capital investment and investments in negotiable instruments are also subject to restrictions. As a result of these controls, we cannot assure you that we will be able to meet all of our foreign currency obligations or to remit profits to our Shareholders in the form of dividends.

The value of the Renminbi depends to a large extent on the PRC's domestic and international economic, financial and political conditions and government policies, as well as the local and international currency markets. In light of the flood of capital outflows of China in 2016 due to the weakening of RMB, the PRC government has imposed more restrictive foreign exchange policies and stepped up scrutiny of major outbound capital movement. More restrictions and substantial vetting process are put in place by SAFE to regulate cross-border transactions falling under the capital account. The PRC government may at its discretion further restrict access to foreign currencies in the future for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders.

Any change in PRC foreign exchange policies may give rise to uncertainties in our financial condition and results of operation. We currently do not, nor do we intend to, hedge our exposure to the US dollar or other currencies. Since certain amount of our income and profits are denominated in Renminbi, any appreciation in the Renminbi may subject us to increased competition from imports while a devaluation of the Renminbi may adversely affect the value of our net assets, earnings and declared dividend in foreign currency terms, as well as our ability to meet our foreign currency obligations.

Our financial statements are subject to currency fluctuation on translation.

We conduct our business mainly in Renminbi as well as US Dollars, while the financial statements of our Hong Kong subsidiary are presented in Hong Kong dollars. During the three years ended 31 December 2018 and the eight months ended 31 August 2019, our exchange gain or loss on translation of financial statements of Hong Kong and overseas subsidiaries amounted to gain of approximately RMB0.8 million, gain of approximately RMB0.1 million, loss of approximately RMB0.5 million and gain of approximately RMB0.1 million, respectively. In preparing our consolidated financial statements, the results of operation and financial conditions of our operating subsidiary in Hong Kong are translated into Renminbi at the prevailing exchange rates. Statement of financial position items are translated into Renminbi at the closing foreign exchange rates as at 31 December 2016, 2017 and 2018 and 31 August 2019. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

Fluctuations in the exchange rates between the Renminbi, the US Dollars and the Hong Kong dollars impact our other comprehensive income which will be included in our exchange reserve and, depending on the magnitude of these fluctuations, could obscure the underlying trends that would have been apparent if our consolidated financial statements had been prepared on a constant currency basis. Please refer to Note 3.1.1 to the Accountant's Report set out in Appendix I to this prospectus.

We cannot predict how each of the Renminbi and the US Dollars will fluctuate against the Hong Kong dollars in the future, and currency translation or exchange differences may continue to impact our other comprehensive income. We cannot assure you that significant appreciation or depreciation of each of the Renminbi and the US Dollars against the Hong Kong dollars will not occur.

There may be difficulties in effecting service of process upon us and in seeking recognition and enforcement of foreign judgments or arbitral awards in the PRC.

Our operations and assets are primarily located in the PRC. On 14 July 2006, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative

Region Pursuant to Choice of Court Agreements Between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排) (the "**Arrangement**"), pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil commercial case according to a written choice of court agreement may apply for the recognition and enforcement of such judgment in the PRC. Similarly, a party with a final judgment rendered by a PRC court requiring the payment of money in a civil commercial case pursuant to a written choice of court agreement may apply for the recognition and enforcement of such judgment in Hong Kong. A written choice of court agreement is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong or PRC court is expressly designated as the court having sole jurisdiction for the dispute. It may be difficult or impossible for investors to effect service of process against us or our assets in the PRC in order to seek the recognition and enforcement of foreign judgments in the PRC, if the parties in dispute do not agree to such a choice of court agreement in accordance with the requirements set forth in the Arrangement.

On 18 January 2019, the Supreme People's Court of the PRC and the Department of Justice of Hong Kong signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (《關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排》) (the "**2019 Arrangement**"). The 2019 Arrangement sets out the scope, applicable rulings, procedures and manners to apply for recognition and enforcement examination on jurisdiction of the original court, conditions to refuse to recognise and enforce, and remedies of reciprocal recognition and enforcement of judgments in civil and commercial matters. Following the promulgation of a judicial interpretation of the Supreme People's Court and completion of the relevant procedures in Hong Kong, both sides shall announce a date on which the 2019 Arrangement shall become effective. The 2019 Arrangement shall apply to judgments made by a PRC or Hong Kong court on or after the effective date. When the 2019 Arrangement becomes effective, the Arrangement shall be terminated. However, the Arrangement remains applicable to a choice of court agreement in writing within the meaning of the Arrangement and signed before the effective date of the 2019 Arrangement. Even though the 2019 Arrangement has been signed, it remains unclear when such agreement will come into effect and effectiveness and outcome of any action brought under the 2019 Arrangement may still be uncertain.

The PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of the United States, the United Kingdom, or most other western countries, or Japan. Therefore, it may not be possible for investors to effect service of process on us in the PRC or to enforce any judgment awarded by non-PRC courts in the PRC.

The PRC is one of the signatories to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**"), which allows for the enforcement of arbitral awards given by the arbitration bodies of other New York Convention signatories. Following the resumption of sovereignty over Hong Kong by the PRC on 1 July 1997, the New York Convention is no longer applicable for the enforcement of arbitral awards of Hong Kong in other parts of the PRC. As a result, a memorandum of understanding was signed on 21 June 1999 to permit the reciprocal enforcement of arbitral awards between Hong Kong and the PRC (the "**Memorandum of Understanding**"). This Memorandum of Understanding was approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council and became effective on 1 February 2000. It may be difficult to seek recognition and enforcement of arbitral awards in the PRC if the arbitral awards were given by arbitration bodies that are not signatories to the New York Convention or do not have similar arrangements to the Memorandum of Understanding between Hong Kong and the PRC.

We may be subject to higher income tax rate for the year ended 31 December 2019 and thereafter if we could not renew our High and New Technology Enterprise Certificate.

Pursuant to the EIT Law, domestic enterprises and foreign-invested enterprises shall apply the same corporate income tax law and the same corporate income tax rate of 25%. High-tech enterprises are subject to the reduced enterprise income tax rate of 15%.

On 9 December 2016, Kidztech Intelligent, our Group's operating subsidiary in the PRC, was awarded the High and New Technology Enterprise Certificate (the "**High and New Technology Enterprise Certificate**") which is effective for three years commencing on 1 January 2016, with the applicable income tax rate being 15% for the years from 2016 to 2018. The High and New Technology Enterprise Certificate had expired and Kidztech Intelligent was in the process of renewing the High and New Technology Enterprise Certificate as at the Latest Practicable Date. During the renewal process, Kidztech Intelligent has continued to pay provisional tax on a quarterly basis at tax rate of 15%. In December 2019, our Directors noted that the relevant PRC authority published a proposed list of enterprises which could be accredited as High and New Technology Enterprises in Guangdong Province, the PRC, and Kidztech Intelligent was not included in such proposed list. As the proposed list is preliminary and is not final, we have lodged an appeal with an expectation to obtaining positive feedback from the tax authority as at the Latest Practicable Date. As at the Latest Practicable Date, we have not yet received any feedback from the relevant authority. If Kidztech Intelligent is not able to obtain the High and New Technology Enterprise Certificate for 2019 to 2021, it would need to pay back the shortfall at the applicable tax rate of 25%, amounting approximately RMB2.9 million, in the annual tax filing in May 2020. The applicable tax rate adopted by Kidztech Intelligent for the eight months ended 31 August 2019 was 25%, being the enterprise income tax rate for domestic enterprises. All the other PRC entities of our Group are subject to EIT at a rate of 25%.

There is no assurance that Kidztech Intelligent will obtain the renewal of the High and New Technology Enterprise Certificate. If we could not renew our High and New Technology Enterprise Certificate, Kidztech Intelligent will not be able to enjoy a preferential tax treatment, and a tax rate of 25% shall be applied to the income of Kidztech Intelligent for the year ended 31 December 2019 and the subsequent financial years. This may materially and adversely affect our results of operation for the year ended 31 December 2019 and the subsequent financial years.

Dividends from our PRC subsidiaries paid to our Hong Kong subsidiary might not qualify for the reduced PRC withholding tax rate under the special arrangement between Hong Kong and the PRC.

Under the EIT Law, if the foreign shareholder is not deemed a PRC tax resident enterprise under the EIT Law, dividend payments from PRC subsidiary to their foreign shareholders are subject to a withholding tax at the rate of 10%, unless the jurisdiction of such foreign shareholders has a tax treaty or similar arrangement with the PRC and the foreign shareholder obtains approval from competent local tax authorities for application of such tax treaty or similar arrangement. Pursuant to a special arrangement between Hong Kong and the PRC, the withholding tax rate is lowered to 5% if a Hong Kong resident enterprise is the beneficial owner of more than 25% of a

PRC company distributing the dividends. According to the Announcement on the Administrative Measures for Non-resident Taxpayers to Enjoy the Treatment Under Tax Treaties (關於發佈〈非居民納税人享受税收協定待遇管理辦法〉的公告) (“**2019 Administration Measures**”), which was promulgated by the State Administration of Taxation on 14 October 2019 and became effective on 1 January 2020, prior approval from or filings with the State Administration of Taxation is no longer required before a non-resident taxpayer can enjoy the tax preferential treatment under the relevant treaties. A non-resident taxpayer may enjoy the tax preferential treatment at the time of return filings or withholding and declaration through a withholding agent if it is eligible for the tax preferential treatment under the relevant provisions of a tax treaty, subject to the follow-up administration by the relevant tax authority. In order to enjoy the tax preferential treatment, the non-tax resident shall file documents as required by the 2019 Administration Measures with tax authority when filing tax returns or withholding and declaration through a withholding agent, among which is the tax resident identity issued by the tax authority of the counter party to the treaty. During the follow-up administration, the PRC tax authorities shall verify if the non-resident taxpayer is eligible for the tax preferential treatment, ask for supplemental documents from the non-tax resident or, if the non-resident taxpayer is deemed not eligible for the tax preferential treatment, require the non-resident taxpayer to pay up the non-payment or underpayment of the tax within specified timeframe. Moreover, according to the Notice of the State Administration of Taxation on the Issues Concerning the Application of the Dividend Clauses of Tax Agreements (國家税務總局關於執行税收協定股息條款有關問題的通知) issued by the State Administration of Taxation on 20 February 2009, if the main purpose of an offshore arrangement is to obtain preferential tax treatment, the PRC tax authorities have the discretion to adjust the preferential tax rate for which an offshore entity would otherwise be eligible. There is no assurance that the PRC tax authorities will recognise and accept the 5% withholding tax rate on dividends paid by our PRC subsidiaries and received by our Hong Kong subsidiary.

Our income and the dividends we may receive from our PRC subsidiaries may be subject to PRC tax under the EIT Law, which may have a material adverse effect on our results of operation.

Under the EIT Law and its implementing rules, both of which became effective from 1 January 2008, an enterprise established outside of the PRC with “de facto management bodies” situated within the PRC could be considered a PRC resident enterprise and will be subject to the enterprise income tax at the rate of 25% on its global income with any relevant foreign tax paid available to be claimed as a foreign tax credit. The implementing rules of the EIT Law define the term “de facto management bodies” as “establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise”. The State Administration of Taxation issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (“**Guo Shui Fa [2009] No. 82**”, or “**Circular 82**”) (關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知, 國税發[2009]82號), on 22 April 2009. Circular 82 provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore-incorporated enterprise is located in China. Although Circular 82 only applies to offshore enterprises controlled by PRC enterprises, not those controlled by PRC individuals or foreigners, like our Company, the determining criteria set forth in Circular 82 may reflect the State Administration of Taxation’s general position on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises or individuals. If the PRC authorities were to subsequently determine that we should be so treated and if we derive any global income in future, a 25% enterprise income tax on our global income could significantly increase our tax burden and materially and adversely affect our cash flow and profitability. Further, if we are regarded as a PRC resident enterprise, dividends that we receive from the subsidiary which are considered as PRC resident enterprises would be exempt from EIT and no withholding tax would be applied either. However, as there is still uncertainty as to how the EIT Law and its implementation rules will be interpreted and implemented, we cannot assure you that our income may not be subject to the EIT Law and that we are eligible for such PRC enterprise income tax exemptions or reductions.

In addition, because there remains uncertainty regarding the interpretation and implementation of the EIT Law and its implementing rules, it is uncertain whether, if we are regarded as a PRC resident enterprise, dividends we pay with respect to our Shares, or the gain you may realise from the transfer of our Shares, would be treated as income derived from sources within the PRC and be subject to a 10% withholding income tax, unless any such foreign corporate shareholder is qualified for a preferential withholding rate under a tax treaty. For further details, please refer to the sub-paragraph headed "Enterprise income tax" under the paragraph headed "Regulations concerning taxation" under the section headed "Regulatory overview" in this prospectus. If we are required under the EIT Law to withhold PRC income tax on our dividends payable to our non-PRC corporate shareholders, or if you are required to pay PRC income tax on the transfer of our Shares, your investment in our Shares may be materially and adversely affected.

PRC regulations on loans to and direct investment by offshore holding companies in PRC entities may delay or prevent us from using the proceeds of this offering to make loans or additional capital contributions to our PRC subsidiaries.

As an offshore holding company of our PRC subsidiaries, we may make loans to our PRC subsidiaries, or we may make additional capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries are subject to PRC regulations and foreign exchange loan registrations. For example, loans by us to our PRC subsidiaries to finance their activities cannot exceed statutory limits and must be registered with the SAFE or their respective local counterpart. We may also determine to finance our PRC subsidiaries by means of capital contributions. Such capital contributions must be approved by or filed with the MOFCOM or their respective local counterpart. We cannot assure you that we can obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to finance our PRC subsidiaries. If we fail to receive relevant registrations or approvals, our ability to use the proceeds of this offering and to capitalise our PRC operations would be negatively affected which would adversely and materially affect our liquidity and our ability to expand our business.

We face uncertainty with respect to PRC tax obligations in connection with indirect transfer of equity interests in our PRC resident enterprise through their non-PRC holding companies.

On 3 February 2015, the SAT issued a new circular on the PRC tax treatment of an indirect transfer of assets by a non-resident enterprise (國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告) (the "**Circular No. 7**"). Circular No. 7 stipulates that if a non-resident enterprise indirectly transfers its equity interest in the PRC resident enterprises and other properties by implementing arrangements such as transfer of shares in an overseas enterprise, without reasonable commercial purposes but to evade the enterprise income tax, the nature of this indirect transfer shall be re-defined and recognised as a direct transfer of equity interest in a PRC resident enterprise and other properties.

Theoretically, the relevant provisions in Circular No. 7 are not applicable to transfers of our Shares by Shareholders who are individuals or PRC resident enterprises, and these Shareholders, as transferors of our Shares, will in no circumstances be subject to PRC tax reporting obligations or tax liabilities as provided under Circular No. 7. Transferring shareholders may become subject to PRC tax reporting obligations or tax liabilities under Circular No. 7 if (i) the transferring shareholders are non-resident enterprises; and (ii) the transfer of our Shares by such Shareholders is determined as not having any reasonable commercial purpose by competent tax authorities.

Circular No. 7 specifies a number of factors and conditions that shall be considered in determining whether an indirect transfer of the (i) properties of an establishment or place in the PRC; (ii) real estate in the PRC; or (iii) equity investment in a PRC resident enterprise and other properties directly held by such non-resident enterprise and for which the proceeds from the transfer of such properties shall be subject to EIT as specified by the PRC tax laws (collectively the "**PRC Taxable Properties**") has a reasonable commercial purpose. It also specifies circumstances under which an indirect transfer shall be directly deemed as having no reasonable commercial purpose ("**Deemed Negative Determination**"). The determination shall be made on a case-by-case basis based on specific circumstances.

Provisions of Circular No. 7 imposing PRC tax liabilities and reporting obligations do not apply to "non-resident enterprise acquiring and disposing of the equity interests of the same offshore listed company in a public market" ("**Public Market Safe Harbour**").

Since Circular No. 7 has only become effective since 3 February 2015 and no implementing rules have been released yet, it is not clear that how the relevant taxation authorities would interpret and define each factor and then determine whether the transfer of our Shares by Shareholders may have a reasonable commercial purpose or not. In addition, Circular No. 7 does not address detailed follow-up procedures if the indirect transfer of the PRC Taxable Properties is determined as not having any reasonable commercial purpose. As stated in the section headed "Information about this prospectus and the Global Offering" of this prospectus, potential investors are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding and dealing in the Offer Shares.

If any future transfer of our Shares constitutes an indirect transfer of the PRC Taxable Properties and is subject to the EIT obligation under Circular No. 7, the amount of the EIT shall be calculated based on the "income from the transfer" and applicable tax rate. In respect of tax rate, a withholding tax rate of 10% shall be applicable, unless otherwise provided in the relevant tax treaty.

PRC laws and regulations establish more complex procedures for some acquisitions of PRC companies by foreign investors, which could make it difficult for us to pursue growth through acquisitions in China.

A number of PRC laws and regulations, including the M&A Rules, the Anti-Monopoly Law (反壟斷法), and the Rules of Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (商務部實施外國投資者併購境內企業安全審查制度的規定) promulgated by MOFCOM on 25 August 2011 and effective from 1

September 2011 (the "**Security Review Rules**"), have established procedures and requirements that are expected to make the review of certain merger and acquisition activities by foreign investors in China more time consuming and complex. These include requirements in some instances to notify MOFCOM in advance of any transaction in which foreign investors take control of a PRC domestic enterprise, or to obtain approval from MOFCOM before overseas companies established or controlled by PRC enterprises or residents acquire affiliated domestic companies. PRC laws and regulations also require certain merger and acquisition transactions to be subject to merger control or security review.

The Security Review Rules were formulated to implement the Notice of the General Office of the State Council on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (國務院辦公廳關於建立外國投資者併購境內企業安全審查制度的通知), which was promulgated in 2011. Under these rules, a security review is required for mergers and acquisitions of domestic enterprises by foreign investors involved in the military industry, enterprises located near key and sensitive military facilities and other units related to national defence and security or by which foreign investors may acquire "de facto control" of domestic enterprises that implicate "national defence and security" or "national security" concerns. For example, these may be enterprises involved in key agricultural products, key energy and resources, vital infrastructure, important transportation services, core technologies and significant equipment manufacturing. In addition, when deciding whether a specific merger or acquisition is subject to the security review, MOFCOM will look into the substance and actual impact of the transaction.

The Security Review Rules further prohibit foreign investors from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions. It is unclear whether our business would be deemed to be in an industry that raises "national defence and security" or "national security" concerns. As there is a lack of clear statutory interpretation on the implementation of the Security Review Rules, there can be no assurance that MOFCOM will not apply these national security review related rules to the acquisition of equity interest in our PRC subsidiaries. If we are found to be in violation of the Security Review Rules and other PRC laws and regulations with respect to the merger and acquisition activities in China, or fail to obtain any of the required approvals, the relevant regulatory authorities would have broad discretion in dealing with such violations, including levying fines, confiscating our income, revoking our PRC subsidiaries' business and operating licences, requiring us to restructure or unwind the relevant ownership structure or business operations. Any of these actions could cause significant disruption to our business operations and may materially and adversely affect our business, financial condition and results of operation. Furthermore, we may grow our business in part by acquiring other companies operating in our industry. If the business of any target company we plan to acquire falls into the ambit of security review, we may not be able to successfully acquire such company either by equity or asset acquisition, capital contribution or any contractual arrangement. Complying with the requirements of the relevant regulations to complete such transactions could be time consuming, and any required approval processes, including approval from MOFCOM, may delay or inhibit our ability to complete such transactions, thus affecting our ability to expand our business or maintain our market share.

RISKS RELATING TO THE GLOBAL OFFERING

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

Prior to Listing, there is no public market for our Shares. The listing of, and the permission to deal with, our Shares on the Stock Exchange do not guarantee the development of an active public market or the sustainability thereof following completion of the Global Offering. Factors such as variations in our Group's revenue, earnings and cash flows, strategic acquisitions made by our Group or its competitors, loss of key personnel, litigation, fluctuations in the market prices for the land in the PRC, the liquidity of the market for our Shares, the general market sentiment regarding the toy manufacturing and sale industries could cause the market price and trading volume of our 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.

Future sales, or market perception of sales, of substantial amounts of our Shares in the public market, including any future offerings, could have a material adverse effect on the market price of our Shares and make it difficult for you to recover the full value of your investment.

The market price of our Shares could decline as a result of future sales of substantial amount of our Shares or other securities relating to our Shares in the public market, or the issuance of new Shares or other securities relating to our Shares, or the perception that such sales or issuance may occur. Future sales, or perceived sales, of substantial amount of our Shares could materially and adversely affect the market prices of our Shares and may also materially and adversely affect our ability to raise capital in the future.

Investors for our Shares may experience dilution if we issue additional Shares in the future.

If we issue additional Shares in the future, investors of our Shares in the Global Offering may experience further dilution in their ownership percentage. We may need to raise additional funds in the future to finance expansion of or new developments relating to our existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro-rata basis to the existing Shareholders, the percentage ownership 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 our Offer Shares.

You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles or disseminated through other media relating to us and/or the Global Offering, certain of which may not be consistent with the information contained in this prospectus.

Prior to the publication of this prospectus, there may be press and media coverage regarding us and/or the Global Offering including certain financial information, financial projections and other information about us that do not appear in this prospectus, the disclosure of which was not authorised by us (the "**Unauthorised Information**"). We wish to emphasise to potential investors that we do not accept any responsibility for any such Unauthorised Information. The Unauthorised Information was not sourced from or approved by us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the Unauthorised Information. To the extent that any of the Unauthorised Information is inconsistent with, or is in conflict with, the information contained in this prospectus, we disclaim it. Accordingly, prospective investors are cautioned to make their investment decisions based solely on the information contained in this prospectus and should not rely on any of the Unauthorised Information.

Possible reduction of the Offer Price after making a Downward Offer Price Adjustment.

We have the flexibility to make a Downward Offer Price Adjustment to set the final Offer Price at up to 10% below the bottom end of the indicative Offer Price range per Share. It is therefore possible that the final Offer Price will be set at HK$1.05 per Offer Share upon the making of a full Downward Offer Price Adjustment.

If the final Offer Price is set at HK$1.05, the estimated net proceeds we will receive from the Global Offering will be reduced to HK$53.4 million, and such reduced proceeds will be used as described in the section headed "Future plans and use of proceeds" in this prospectus.

RISKS RELATING TO STATEMENTS IN THIS PROSPECTUS

We cannot guarantee the accuracy of facts and other statistics with respect to certain information obtained from research reports and supplied by other parties contained in this prospectus.

Certain facts and statistics cited in this prospectus are based on various official government and non-official publications, including the industry report. We cannot guarantee the quality or reliability of such facts and statistics. Such information has not been independently verified by us and may be inconsistent, inaccurate, incomplete or out-of-date. None of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriter(s), their respective directors and advisers or any other parties involved in the Global Offering makes any representation as to the accuracy or completeness of such facts and statistics. Such facts and statistics may not be consistent with other information compiled within or outside the PRC. Furthermore, the facts and statistics may be incomparable to statistics on the economies of other nations and there can be no assurance that the statistics are stated or compiled on the same basis or with the same degree of accuracy as compared to those stated or compiled by other nations. Accordingly, such facts and statistics should not be unduly relied upon.

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

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, our Company must have sufficient management presence in Hong Kong, which normally means that at least two executive directors must be ordinarily resident in Hong Kong. Since all but one of our executive Directors are ordinarily based and reside in the PRC, our Company would need to appoint one additional executive Director who is ordinarily resident in Hong Kong or relocate at least one of our executive Directors to Hong Kong in order to comply with the requirements under Rule 8.12 of the Listing Rules. In any of these events, it would be practically difficult, unduly burdensome and not be commercially feasible for our Group to implement such arrangement. As such, we do not have, and do not contemplate in the foreseeable future that we will have, sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules on the conditions that, among other things, we maintain the following arrangements to achieve regular and effective communication between us and the Stock Exchange:

1. **Authorised representatives**: we have appointed Mr. Pui, our executive Director and Ms. Koo Ching Fan, one of the joint company secretaries of our Company, as the authorised representatives (the "**Authorised Representatives**") for the purpose of Rule 3.05 of the Listing Rules. The Authorised Representatives will act as our principal channel of communication with the Stock Exchange and would be readily contactable by phone, facsimile and email to deal promptly with enquiries from the Stock Exchange. Both Mr. Pui and Ms. Koo Ching Fan ordinarily reside in Hong Kong. The alternate to Mr. Pui and Ms. Koo Ching Fan is Mr. Yu (the "**Alternate Authorised Representative**"). Accordingly, the Authorised Representatives and the Alternate Authorised Representative will be able to meet with the relevant members of the Stock Exchange to discuss any matters in relation to our Company within a reasonable period of time.

2. **Directors**: to facilitate communication with the Stock Exchange, we have provided the Stock Exchange with the contact details (such as mobile phone numbers, office phone numbers, e-mail addresses and fax numbers, to the extent possible) of each of our Directors and Authorised Representatives. In the event that any Director expects to travel or otherwise be out of office, he/she will provide the phone number of the place of his/her accommodation to the Authorised Representatives. To the best of our knowledge and information, each Director who is not ordinarily resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and can meet with the Stock Exchange within a reasonable period after being requested by the Stock Exchange.

3. **Compliance adviser**: we have appointed CMBC International Capital Limited as our compliance adviser (the "**Compliance Adviser**") in compliance with Rule 3A.19 of the Listing Rules. The Compliance Adviser will, among other things and in addition to the Authorised Representatives, provide us with professional advice on continuing obligations under the Listing Rules and act as an additional channel of communication of our Company with the Stock Exchange during the period from the Listing Date to the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year immediately after Listing. The Compliance Adviser will be available to answer enquiries from the Stock Exchange and will act as the principal channel of communication with the Stock Exchange when the Authorised Representatives and the Alternate Authorised Representative are not available.

4. our Company will inform the Stock Exchange promptly in respect of any change in the Authorised representatives, the Alternate Authorised Representative and the Compliance Adviser.

WAIVER IN RELATION TO RULE 4.04(1) OF THE LISTING RULES AND EXEMPTION FROM STRICT COMPLIANCE WITH SECTION 342(1)(b) IN RESPECT 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

Pursuant to Rule 4.04(1) of the Listing Rules, the Accountant's Report contained in this prospectus must include, *inter alia*, the results of our Company in respect of each of the three financial years immediately preceding the issue of this prospectus or such shorter period as may be acceptable to the Stock Exchange.

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.

Pursuant 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 the gross trading income or sales turnover (as the case may be) of our Company during each of the three financial years immediately preceding the issue of this prospectus as well as an explanation of the method used for the computation of such income or turnover and a reasonable breakdown of the more important trading activities. Pursuant 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 our Company's auditor with respect to profits and losses in respect of each of the three financial years immediately preceding the issue of this prospectus and assets and liabilities of our Company at the last date to which the financial statements of our Company were prepared.

Pursuant to section 342A(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the SFC may issue, subject to such conditions (if any) as the SFC thinks fit, a certificate of exemption from compliance with the relevant requirements under the Companies (Winding Up and Miscellaneous Provisions) Ordinance if, having regard to the circumstances, the SFC considers that the exemption will not prejudice the interests of the investing public and compliance with any or all of such requirements would be irrelevant or unduly burdensome, or is otherwise unnecessary or inappropriate.

The Accountant's Report for each of the three years ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2019 has been prepared and is set out in Appendix I to this prospectus. Pursuant to the relevant requirements set forth above, our Company is required to produce three full years of audited accounts for the years ended 31 December 2017, 2018 and 2019. However, an application was made to the Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Listing Rules, and such waiver has been granted by the Stock Exchange on the conditions that:

(a) this prospectus will be issued on or before 29 February 2020 and our Company be listed on the Stock Exchange on or before 31 March 2020 (i.e. within three months after the end of our Company's latest financial year immediately preceding the issue of this prospectus);

(b) this prospectus contains the profit estimate for the year ended 31 December 2019 (in compliance with Rules 11.17 to 11.19 of the Listing Rules) and the statement from our Directors that after performing all reasonable due diligence work which they consider appropriate, up to the Latest Practicable Date, there is no material and adverse change to the financial and trading positions or prospects of our Company, with specific reference to the trading results from 1 September 2019 to 31 December 2019;

(c) our Company obtains a certificate of exemption from the SFC on strict compliance with section 342(1)(b), paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance; and

(d) our Company shall publish its annual results and annual report for the financial year ended 31 December 2019 no later than 31 March 2020 and 30 April 2020, respectively, in compliance with Rules 13.46(2) and 13.49(1) of the Listing Rules.

An application has also been made to the SFC for a certificate of exemption from strict compliance with the requirements under section 342(1)(b) in respect 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 and a certificate of exemption has been granted by the SFC under section 342A(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance on the conditions that (i) the particulars of the exemption be set forth in this prospectus; and (ii) this prospectus be issued on or before 29 February 2020 and our Company be listed on the Stock Exchange on or before 31 March 2020 (i.e. within three months after the end of our Company's latest financial year immediately preceding the issue of this prospectus).

The applications to Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Listing Rules and to the SFC for a certificate of exemption from strict compliance with the requirements under section 342(1)(b) in respect 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 have been made on the grounds, among others, that strict compliance with the above requirements would be unduly burdensome and the exemption would not prejudice the interests of the investing public as:

(a) there would not be sufficient time for our Company and the reporting accountants of our Company (the "**Reporting Accountants**") to finalise the audited financial statements for the year ended 31 December 2019 for inclusion in this prospectus. If the financial information for the year ended 31 December 2019 is required to be audited, our Company and the Reporting Accountants would have to carry out substantial volume of work to prepare, update and finalise the Accountant's Report and the prospectus, and the relevant sections of the prospectus will need to be updated to cover such additional period. This would involve additional time and costs since substantial work is required to be carried out for audit purposes. It would be unduly burdensome for the audited results for the year ended 31 December 2019 to be finalised in a short period of time. Our Directors consider that the benefits of such work to the existing and prospective shareholders of our Company may not justify the additional work and expenses involved and the delay of the Listing timetable;

(b) our Directors confirm that all information necessary for the public to make an informed assessment of our Group's activities, assets and liabilities, financial position, management and prospects has been included in this prospectus and that, as such, the waiver granted by the Stock Exchange and the exemption granted by the SFC from strict compliance with Rule 4.04(1) of the Listing Rules and the requirements under section 342(1)(b) in respect 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, respectively, will not prejudice the interests of the investing public. Our Directors and the Sole Sponsor herein confirm that after performing all reasonable due diligence work which they consider appropriate, up to the date of prospectus, except to the extent disclosed in the paragraph headed "Recent development" above and the listing expenses in connection with the Global Offering, there has been no material adverse change to the financial and trading positions or prospects of our Group since 1 September 2019 (immediately following the date of the latest audited statement of financial position in the Accountant's Report set out in Appendix I to this prospectus) up to 31 December 2019 and there has been no event which would materially affect the information shown in the Accountant's Report as set out in Appendix I to this prospectus, the financial information section, profit estimate as set out in Appendix IIB to this Prospectus and information regarding the Company's recent development subsequent to the Track Record Period and up to the Latest Practicable Date, since 1 September 2019;

(c) our Company is of the view that the Accountant's Report covering the three years ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2019, together with the profit estimate for the year ended 31 December 2019 (in compliance with Rules 11.17 to 11.19 of the Listing Rules) included in this prospectus have already provided the potential investors with adequate and reasonably up-to-date information in the circumstances to form a view on the track record and earnings trend of our Company; and our Directors and the Sole Sponsor confirm that all information which is necessary for the investing public to make an informed assessment of the business, assets and liabilities, financial position, trading position, management and prospects has been included in this prospectus. Therefore, the waiver and exemption would not prejudice the interests of the investing public; and

(d) we will comply with the requirements under Rules 13.46(2) and 13.49(1) of the Listing Rules in respect of the publication of our annual results and annual report. Our Company currently expects to issue our annual results and annual report for the financial year ended 31 December 2019 on or before 31 March 2020 and 30 April 2020, respectively. In this regard, our Directors consider that our Shareholders, the investing public as well as potential investors of our Company will be kept informed of the financial results of our Group for the financial year ended 31 December 2019.

JOINT COMPANY SECRETARIES

Pursuant to Rule 8.17 of the Listing Rules, our company secretaries must comply with Rule 3.28 of the Listing Rules. Pursuant to Rule 3.28 of the Listing Rules, we must appoint an individual who, by virtue of his/her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of a company secretary, as our company secretary.

Note 1 to Rule 3.28 of the Listing Rules sets out the academic or professional qualifications of company secretaries considered to be acceptable by the Stock Exchange:

- a member of The Hong Kong Institute of Chartered Secretaries;
- a solicitor or barrister (as defined in the Legal Practitioners Ordinance, Chapter 159 of the Laws of Hong Kong); and
- a certified public accountant (as defined in the Professional Accountants Ordinance, Chapter 50 of the Laws of Hong Kong).

Note 2 to Rule 3.28 of the Listing Rules sets out the factors that the Stock Exchange considers when assessing an individual's relevant experience, including:

- length of employment with the issuer and other issuers and the roles he/she played;
- familiarity with the Listing Rules and other relevant laws and regulations including the SFO, Companies Ordinance, Companies (Winding up and Miscellaneous Provisions) Ordinance, and the Takeovers Code;

- relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and

- professional qualifications in other jurisdictions.

We have appointed Ms. Cao, as one of our joint company secretaries. Ms. Cao joined Kidztech Intelligent as the secretary to the board of directors in April 2015 and has remained in this position until the conversion of Kidztech Intelligent from a joint-stock company to a company with limited liability in October 2019 and has a sound understanding of the operations of the board of directors of Kidztech Intelligent and our Company. Please refer to the paragraph headed "Senior management" under the section headed "Directors and senior management" of this prospectus for details of Ms. Cao's biography. However, she does not possess the specified qualification required by Rule 3.28 of the Listing Rules. Given the importance of the company secretary's role in the corporate governance of a listed issuer, particularly in assisting the listed issuer as well as its directors in complying with the Listing Rules and other relevant laws and regulations, we have made the following arrangements:

- Ms. Cao will, in addition to the minimum requirement under Rule 3.29 of the Listing Rules, use her best efforts to attend relevant training courses, including briefings on the latest changes to the applicable Hong Kong laws and regulations as well as the Listing Rules organised by the Hong Kong legal advisers to our Company and seminars organised by the Stock Exchange for issuers from time to time. Ms. Cao will obtain copies of the Listing Rules and will have access to updates of the Listing Rules in order to familiarise herself with the regulatory requirements of the Stock Exchange. Further training at the request of Ms. Cao or our Company on any latest developments on the applicable Hong Kong laws and regulations will also be provided after Listing;

- a joint company secretary who meets the requirement under Note 1 to Rule 3.28 of the Listing Rules will work closely with Ms. Cao to jointly discharge the duties of a company secretary for an initial period of three years commencing from the Listing Date so as to enable Ms. Cao to acquire the relevant experience to discharge the duties and responsibilities as a company secretary (as required under Note 2 to Rule 3.28 of the Listing Rules). We have appointed Ms. Koo Ching Fan as a joint company secretary with effect from the Listing Date; and

- upon the expiry of three years after the Listing Date, we will re-assess the qualifications and experience of Ms. Cao. Ms. Cao is expected to be able to demonstrate to the Stock Exchange's satisfaction that she, having had the benefit of Ms. Koo Ching Fan's assistance for three years, would then have acquired the relevant experience within the meaning of Note 2 to Rule 3.28 of the Listing Rules and that the above joint company secretaries arrangement would no longer be necessary.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements of Rule 8.17 and Rule 3.28 of the Listing Rules.

The following information is provided for guidance only. Prospective applicants for the Offer Shares should consult their financial advisers and take legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants should inform themselves as to the relevant legal requirements of applying for the Offer Shares and any applicable exchange control regulations and applicable laws in the countries of their respective citizenship, residence and domicile.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

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

The Global Offering is made solely on the basis of the information contained and the representations made in this prospectus and the Application Forms. No person is authorised in connection with the Global Offering to give any information or to make any representation not contained in this prospectus and the Application Forms, and any information or representation not contained herein must not be relied upon as having been authorised by us, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, the Underwriters, any of their respective directors or affiliates of any of them or any other person or party involved in the Global Offering. You should only rely on the information contained in this prospectus and the Application Forms to make your investment decision.

UNDERWRITING AND INFORMATION ON THE GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering. The Global Offering comprises the Hong Kong Public Offering of initially 8,840,000 Offer Shares and the International Offering of initially 79,560,000 Offer Shares (subject, in each case, to readjustment on the basis as set out in the section headed "Structure and conditions of the Global Offering" in this prospectus).

DETERMINATION OF THE OFFER PRICE

The Hong Kong Offer Shares are being offered at the Offer Price which is expected to be determined by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us on or around Monday, 9 March 2020, or such later date as mutually agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us but in any event not later than 6:00 p.m. (Hong Kong time) on Monday, 16 March 2020.

We have reserved the right to make a Downward Offer Price Adjustment to provide flexibility in pricing the Offer Shares. The ability to make a Downward Offer Price Adjustment does not affect our obligation to issue a supplemental prospectus and to offer investors a right to withdraw their applications if there is a material change in circumstances not disclosed in this prospectus.

If it is intended to set the final Offer Price at more than 10% below HK$1.17 (being the bottom end of the indicative Offer Price range), the Withdrawal Mechanism will be applied if the Global Offering is to proceed.

If the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us are unable to reach an agreement on the Offer Price on or before the Price Determination Date or at such later date as they mutually agree, the Global Offering will not become unconditional and will lapse.

PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES

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

RESTRICTIONS ON OFFER AND SALE OF OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares, other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, and without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

The Offer Shares are offered to the public in Hong Kong for subscription solely on the basis of the information contained and the representations made in this prospectus and the Application Forms. No person is authorised to give any information or to make any representation not contained in this prospectus and the Application Forms, and any information or representation not contained herein must not be relied upon as having been authorised by us, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, the Underwriters, any of their respective directors, affiliates, advisers, agents or representatives of any of them or any other person or party involved in the Global Offering.

Each person acquiring the Offer Shares will be required to, or be deemed by his acquisition of Offer Shares, to confirm, that he is aware of the restrictions on offers and sale of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered any Offer Shares in circumstances contravene any such restrictions.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option and upon the exercise of any options which may be granted under the Share Option Scheme) and Shares to be issued under the Capitalisation Issue. No part of the share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

HONG KONG BRANCH SHARE REGISTRAR AND STAMP DUTY

All Offer Shares subscribed for pursuant to applications made in the Hong Kong Public Offering will be registered on our Company's branch share register of members to be maintained by our Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. Our Company's principal register of members will also be maintained in the Cayman Islands. Only Shares registered on the register of members of our Company in Hong Kong may be traded on the Stock Exchange.

Dealings in Shares registered in the register of members in Hong Kong will be subject to Hong Kong stamp duty. The current rate of stamp duty in Hong Kong is 0.2% of the consideration of, if higher, the market value of the Shares being sold or transferred.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for, purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to, the Offer Shares, you should consult an expert.

We, our Directors, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents or advisers or any other persons or parties involved in the Global Offering do not accept responsibility for any tax effects on or liabilities resulting from the subscription for, purchase, holding, disposing of, dealing in, or the exercise of any rights in relation to, the Offer Shares.

OFFER SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Stock Exchange as well as our compliance 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 Listing Date or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading days. Investors should seek the advice of their stockbroker or other professional advice for details of these settlement arrangements and how such arrangements will affect their rights and interests.

All 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 the Shares to be admitted into CCASS.

OFFER SIZE ADJUSTMENT, OVER-ALLOTMENT AND STABILISATION

Details of the arrangements relating to the Offer Size Adjustment Option or the stabilisation and Over-allotment Option are set out in the section headed "Structure and conditions of the Global Offering" in this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the sections headed "Structure and conditions of the Global Offering" and "How to apply for the Hong Kong Offer Shares" in this prospectus.

CURRENCY TRANSLATIONS

Unless otherwise specified, amounts denominated in United States dollars and RMB have been translated, for illustrative purposes only, into HK$ in this prospectus at the following rates:

US$1	:	HK$7.8494
RMB1	:	HK$1.1111

No representation is made at that any amounts in US$, RMB or HK$ can be or could have been at the relevant dates converted at the above rates or any other rates, or at all.

LANGUAGE

The English names of the PRC nationals, entities, departments, facilities, certificates, titles, laws, regulations and the like are translations of their Chinese names and are included for identification purposes only. If there is any inconsistency, the Chinese name prevails.

ROUNDING

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

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Main Board are expected to commence at 9:00 a.m. on Wednesday, 18 March 2020. Shares will be traded in board lots of 2,000 each.

DIRECTORS

Name	Residential address	Nationality
Executive Directors		
Mr. Yu Huang (余煌)	Units 1301/1401, Block 11 Yiju Huating Community Chenghua Street Chenghai District Shantou, Guangdong PRC	Chinese
Mr. Pui Lik Leung Kenny (貝烈亮)	Hse 1, The Balmoral-Somerset 1 Ma Shing Path, Tai Po New Territories Hong Kong	Chinese
Mr. Ni Yanlong (倪彥龍)	Room 702 No. 43 Honglingjin Road Shipaotai Street Shantou, Guangdong PRC	Chinese
Non-executive Director		
Ms. Zheng Jingyun (鄭靜雲)	No. 6 Tower 24 Yueshui'an Xiangyu Shuian Shantou, Guangdong PRC	Chinese
Independent non-executive Directors		
Mr. He Weidong (何衛東)	Room 2601 Building 6 Lugang Jiayuan No. 50 Wangjing West Road Chaoyang District Beijing PRC	Chinese

Name	Residential address	Nationality
Ms. Liu Man (劉曼)	Unit 3703, Unit 2, Block 19 Phase 3, Geli Plaza Xiangzhou District Zhuhai, Guangdong PRC	Chinese
Ms. Zhao Weiwei (趙衛衛)	No. 2604, Unit 4 Building 6 No. 19 Huangping Road Huilongguanzhen Changping District, Beijing PRC	Chinese

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

PARTIES INVOLVED

Sole Sponsor	**CMBC International Capital Limited** 45/F, One Exchange Square 8 Connaught Place Central, Hong Kong
Sole Global Coordinator	**CMBC Securities Company Limited** 45/F, One Exchange Square 8 Connaught Place Central, Hong Kong
Joint Bookrunners	**CMBC Securities Company Limited** 45/F, One Exchange Square 8 Connaught Place Central, Hong Kong
	CEB International Capital Corporation Limited 22/F, AIA Central 1 Connaught Road Central, Hong Kong
	BOCOM International Securities Limited 9/F, Man Yee Building 68 Des Voeux Road Central Hong Kong
	Haitong International Securities Company Limited 22/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
	Shanxi Securities International Limited Unit A, 29/F, Admiralty Center Tower 1 18 Harcourt Road Admiralty, Hong Kong
	Elstone Securities Limited Suite 1601-1604 16/F, West Tower Shun Tak Centre 168-200 Connaught Road Central Hong Kong
	China Tonghai Securities Limited 18/F–19/F, China Building 29 Queen's Road Central Hong Kong

GLAM Capital Limited
Room 908–911
9/F, Nan Fung Tower
88 Connaught Road Central
Central, Hong Kong

Joint Lead Managers

CMBC Securities Company Limited
45/F, One Exchange Square
8 Connaught Place
Central, Hong Kong

CEB International Capital Corporation Limited
22/F, AIA Central
1 Connaught Road
Central, Hong Kong

BOCOM International Securities Limited
9/F, Man Yee Building
68 Des Voeux Road Central
Hong Kong

Haitong International Securities Company Limited
22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Shanxi Securities International Limited
Unit A, 29/F, Admiralty Center Tower 1
18 Harcourt Road
Admiralty, Hong Kong

Elstone Securities Limited
Suite 1601–1604
16/F, West Tower
Shun Tak Centre
168–200 Connaught Road
Central, Hong Kong

China Tonghai Securities Limited
18/F–19/F, China Building
29 Queen's Road Central
Hong Kong

GLAM Capital Limited
Room 908–911
9/F, Nan Fung Tower
88 Connaught Road Central
Central, Hong Kong

Maxa Capital Limited
Flat 08, 19/F
Harbour Centre
25 Harbour Road
Wanchai, Hong Kong

Ever-Long Securities Company Limited
Room 1101–02, 1111–12
11/F, Wing On Centre
111 Connaught Road Central
Sheung Wan, Hong Kong

Livermore Holdings Limited
Unit 1214A, 12/F
Tower II Cheung Sha Wan Plaza
883 Cheung Sha Wan Road
Kowloon, Hong Kong

Hung Sing Securities Limited
Unit 2505, 25/F
West Tower
Shun Tak Centre
200 Connaught Road Central
Hong Kong

Legal advisers to the Company

As to Hong Kong law:
CFN Lawyers
in association with Broad & Bright
27/F, Neich Tower
128 Gloucester Road
Wanchai, Hong Kong

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

As to PRC law:
King & Wood Mallesons
25th Floor, Guangzhou CTF Finance Centre No. 6
Zhujiang East Road
Zhujiang New Town
Tianhe District, Guangzhou
Guangdong, PRC

Legal advisers to the Sole Sponsor and the Underwriters	*As to Hong Kong law:* **Chiu & Partners** 40/F, Jardine House 1 Connaught Place Hong Kong *As to PRC law:* **Beijing Grandway Law Offices** 7/F, Beijing News Plaza No. 26 Jian Guo Men Nei Avenue Beijing, PRC
Auditors and reporting accountants	**PricewaterhouseCoopers** *Certified Public Accountants* 22/F, Prince's Building Central Hong Kong
Industry consultant	**China Insights Industry Consultancy Limited** 10/F Tomorrow Square 399 West Nanjing Road Huangpu District Shanghai PRC
Receiving bank	**Industrial and Commercial Bank of China (Asia) Limited** 16/F, Tower 1 Millennium City 1 388 Kwun Tong Road Kowloon Hong Kong

Registered office in the Cayman Islands	Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Headquarter and place of business in the PRC	Chengyanggang Road Ancheng Highway Lianxia Town Chenghai District Shantou City Guangdong PRC
Place of business in Hong Kong registered under Part 16 of the Companies Ordinance	Room 802, 8/F, Inter-Continental Plaza 94 Granville Road Tsim Sha Tsui East Kowloon Hong Kong
Company website	http://www.kidztech.net/ *(Note: information contained in this website does not form part of this prospectus)*
Joint company secretaries	**Ms. Cao Xuelian** Rooms 404–407, Block 2 Fanhai Chengshi Plaza Qianhai Road, Nanshan District Shenzhen Guangdong PRC **Ms. Koo Ching Fan** *(a member of The Hong Kong Institute of Chartered Secretaries)* Unit B, 1st Floor, Neich Tower 128 Gloucester Road Wanchai Hong Kong

Authorised representatives (for the purpose of the Listing Rules)	**Mr. Pui Lik Leung Kenny** Hse 1, The Balmoral-Somerset 1 Ma Shing Path Tai Po New Territories Hong Kong **Ms. Koo Ching Fan** Unit B, 1st Floor, Neich Tower 128 Gloucester Road Wanchai Hong Kong *Alternate to authorised representatives* **Mr. Yu Huang** Units 1301/1401, Block 11 Yiju Huating Community Chenghua Street Chenghai District Shantou, Guangdong PRC
Members of audit committee	Ms. Zhao Weiwei *(Chairman)* Ms. Liu Man Mr. He Weidong
Members of remuneration committee	Ms. Liu Man *(Chairman)* Mr. Pui Lik Leung Kenny Mr. He Weidong
Members of nomination committee	Mr. He Weidong *(Chairman)* Mr. Yu Huang Mr. Pui Lik Leung Kenny Ms. Liu Man Ms. Zhao Weiwei
Principal share registrar and transfer office	**Conyers Trust Company (Cayman) Limited** Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands

Branch share registrar and transfer office in Hong Kong	**Tricor Investor Services Limited** Level 54 Hopewell Centre 183 Queen's Road East Hong Kong
Compliance adviser	**CMBC International Capital Limited** 45/F, One Exchange Square 8 Connaught Place Central, Hong Kong
Principal bankers	**Bank of China Limited Shantou Branch** 98 Jin Sha Road Shantou
	Industrial Bank Co., Ltd. Shantou Branch Yiyuan Building 161 Changping Road Shantou
	Lianshang Credit Cooperative of Shantou Chenghai Rural Credit Cooperative Union North of Yongxin Village Committee Lianshang Town Chenghai District Shantou

Unless otherwise indicated, the information presented in this section is derived from the CIC Report, which was commissioned by us and is prepared primarily as a market research tool intended to reflect estimates of current and future market conditions based on publicly available resources. References to CIC should not be considered as its opinion as to the value of any security or the advisability of investing in our Group. Our Directors believe that the sources of information and statistics are germane to the subject matter being advised upon. Our Directors have no reason to believe that the corresponding information and statistics are false or misleading or that any fact has been omitted that would render such information and statistics false or misleading in any material respect. The information prepared by CIC and set out in this section has not been independently verified by our Group, our Controlling Shareholders, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other party (except CIC) involved in the Global Offering or their respective directors, officers, employees, advisers and agents, and no representation is given as to its accuracy and completeness. Accordingly, such information should not be unduly relied upon.

SOURCE OF INFORMATION

We have commissioned CIC, an Independent Third Party, to conduct both an analysis of and to produce a report on the global toy manufacture and sale market. The report we commissioned, namely the CIC Report, has been prepared by CIC independent of our influence. We paid CIC a fee of RMB500,000 for the preparation of the CIC Report, which we consider to be in line with market rates. CIC is a professional industry consulting company established in 2013 and is committed to facilitating the investment and financing process. CIC's services include industry consulting, commercial due diligence, strategic consulting, etc..

CIC REPORT

CIC undertook both primary and secondary research using various resources. Primary research involved interviewing key industry experts and leading industry participants. While secondary research involved analysing data from various publicly available data sources, including the National Bureau of Statistics of PRC, the PRC Government releases, the annual reports of relevant industry participants, industry associations, and CIC's own internal database, etc..

The market projections in the commissioned report are based on the following key assumptions: (i) that the overall global social, economic, and political environment is expected to maintain a stable trend over the next decade; (ii) that related key industry drivers are likely to continue driving growth in global toy industry during the forecast period, including the continuous thriving consumption of developing countries, the increasing significant impact of intellectual property rights, continuous development of technologies, growing infant population bases and the continuous increasing demand for toy exports worldwide; and (iii) that there is no extreme force majeure or set of industry regulations in which the market situation may be affected either dramatically or fundamentally.

All statistics are reliable and based on information available as of the date of the CIC Report. Other information sources, including those from the government, industry associations, or market participants, may have provided some of the information on which this analysis or its data is based. CIC came to the conclusions in the CIC Report based on multi-methodologies to ensure data validation and comprehensive integrity assessment.

All the information pertaining to our Company has been sourced from our Company's own audited reports or through management interviews. Information regarding our Company has not been independently verified by CIC.

Unless otherwise noted, all the data and forecasts in this section are derived from the CIC Report. Our Directors confirm that, after taking reasonable care, there have been no adverse changes in any of the market information since the release date of the CIC Report, nor changes which may qualify, contradict, or have an impact on the information as disclosed in this section.

OVERVIEW OF THE GLOBAL TOY MARKET

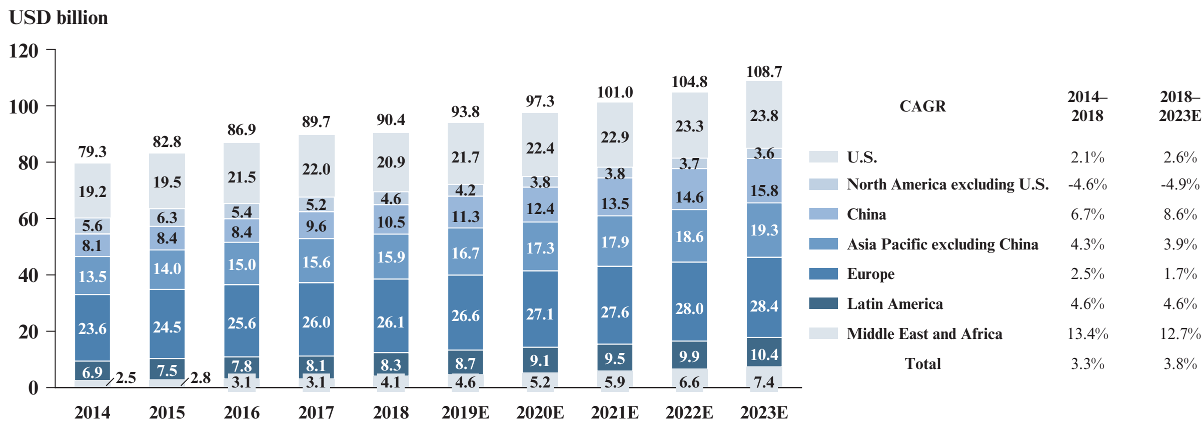
Definition and categorisation of the global toy market

A toy refers to an object, typically a model or miniature, which is designed for the amusement of children. Playing with toys can be an enjoyable means of training young children for later life in society by accelerating their cognitive abilities and serving as educational tools. Toys can be composed of a variety of materials, including but not limited to, wood, paper, plastic, and clay etc.. Many items are designed to serve as toys, but goods produced for other purposes can also serve a similar purpose. At present, there are several different varieties of toys which can be broadly divided into two groups: "smart toys" such as smart toy vehicles or smart interactive toys, and "traditional toys" like traditional toy vehicles, traditional educational toys and dolls. Smart toys are toys which effectively have their own innovated function by virtue of on-board electronics, while traditional toys refer to any toy that needs to be moved manually by consumers and is usually a role play toy. The growth potential of smart toys is much higher than traditional toys with a CAGR of 5.0% in 2018–2023.

Market size of the global toy market

The value of the global toy market has developed steadily from USD79.3 billion in 2014 to USD90.4 billion in 2018, representing a CAGR of 3.3%, and it is expected that it will maintain this pace in the forecast period. The global toy market was affected slightly by the Sino-U.S. trade war and the bankruptcy of Toy "R" Us in 2018. Toys "R" Us — the toy magnate — declared bankruptcy in 2017 and closed 735 stores in the United States in 2018, mainly due to its long-term debt issues that the global toy market will not be affected much. The Toy "R" Us, bankruptcy is an isolated case with no long-term impact on the global market, as the global retail sales value increased from USD89.7 billion in 2017 to USD90.4 billion in 2018. The impact of its bankruptcy in the U.S. market is also expected to recover in short time as the retail sales value in the U.S. is expected to increase from USD20.9 billion in 2018 to USD21.7 billion in 2019 and further to USD23.8 billion in 2023. The global toy market is expected to grow steadily from 2019 to 2023 since other retailers such as Walmart has taken over the market share of Toy "R" Us. Europe commands the world's largest toy market with a total retail sales value of USD26.1 billion in 2018, followed by that of North America (including the U.S.) which achieved a total retail sales value of USD25.5 billion. The global market position of these regions, each represents a mature market and is subsequently expected to experience slower growth rates than developing markets like the PRC or the Middle-East. The PRC toy market is one of the fastest growing markets in the world. The overall retail sales value of the PRC toy market grew from USD8.1 billion in 2014 to USD10.5 billion in 2018 with a CAGR of 6.7% — over double the rate of the overall global toy market. It is anticipated that the China market will reach USD15.8 billion by 2023, representing a CAGR of 8.6%.

Retail sales value of the toy market by region, global, 2014–2023E



Source: CIC Report

Future trends of the global toy market

The increasing popularity of Intellectual Property (IP) toys, rapid development of smart toys, diversification of global smart toy market, and the change of smart toy retail channels are major future trends of the global toy market and are expected to drive the toy market increase steadily.

As consuming power is increasing, people are becoming increasingly attracted to IP toys due to their official authorisation and higher quality. At the same time, interactive and high-tech toys have gradually become the mainstream of the industry and the combination of computer technology and toys now represents the future of the global toy market. High-tech toys satisfy the curiosity of consumers, while strengthening the consumer's interactive experience with these products. Besides, the comprehensive toy specialty retailer has witnessed a decrease in market share mainly due to the bankruptcy of Toys "R" Us, which the bankruptcy was the result of the rapid development of online retail.

Value chain analysis of the global toy market

The global toy retail industry involves all upstream and downstream companies with toys as their core products. The entire industry can be subdivided into manufacturing and sales channels. The PRC has always been one of the world's largest toy manufacturers and exporters.

In the global toy market, after production, the manufacturers decide upon the most effective sales channel, which includes direct sale to retailers, sale through wholesalers or distributors. Most manufacturers have hybrid sales channels. Under the direct sale model, the manufacturers sign contracts and deal directly with key retailers, such as hypermarkets, which usually have their own stores and sell products directly to the end customers. A wholesaler refers to a merchant or a firm that purchases a large quantity of products on a per order basis (without long term or framework agreement) from manufacturers, vendors and reselling the products to retailers or other wholesalers, serves in non-specific areas. A distributor is an active partner under long term or framework agreement with minimum purchase amount requirement, incentive scheme and/or marketing plans and/or expenditure that sells the products of a manufacturer to retailers or end customers, covers a specific large area or market, and promotes product to increase sales. Generally, wholesalers have their show rooms and attend exhibitions to show the products of their suppliers, and by visiting their show rooms and participating in the exhibitions, retailers or other wholesalers may have access to the products and place orders. The model of sale through wholesalers commands the largest market share and in this model manufacturers sign contracts and deal with wholesalers directly. The profit of wholesalers is mainly derived from the price spread.

To make goods available to the final consumer, a manufacturer or producer should choose the best channel for distribution, as it cannot sell the goods directly to consumers. Generally, manufacturers prefer to work with retailers as they can ensure their products could be sold to the customer directly. In the toy industry, the scale of manufacturers and wholesalers/distributors tends to be an important factor for manufacturers to consider whether to sell through wholesalers or distributors.

Large brands or manufacturers like Lego and Mattel prefer to sell products to distributors, as (i) their brands or products are already well known and accepted in the market and product offerings are wide enough to ensure adequate demand from end customers, and distributors are more willing to take the role to become their active partner and agent in order to increase their reputation; (ii) they can provide stable supply of products to distributors with their established operation and production scale; and (iii) they can further develop their branding through stable and long term business relationship with distributors. For those toy manufacturers without such large scale, including the PRC toy manufacturers, due to (i) the smaller scale of operation; and (ii) their products and brands are not as famous as those large brands or manufacturers to enable distributors' willingness to distribute their products on a long term basis, it may not be affordable and feasible for them to engage distributors to distribute their products.

Regarding the scale of wholesalers/distributors, it is common for them at their beginning stage of business operation to wholesale and purchase from manufacturers based on their customers' demand in order to reduce inventory risk. They tend to work with small scaled manufacturers on a per order basis. When their size and scale of operation became larger, with wider customer base and their own stable sales network in the specific areas, they may be able to deal with the larger brands and manufacturers for distribution of their products, i.e. request for the exclusive right to sell the products for the manufacturers in a specific area.

OVERVIEW OF THE GLOBAL SMART TOY MARKET

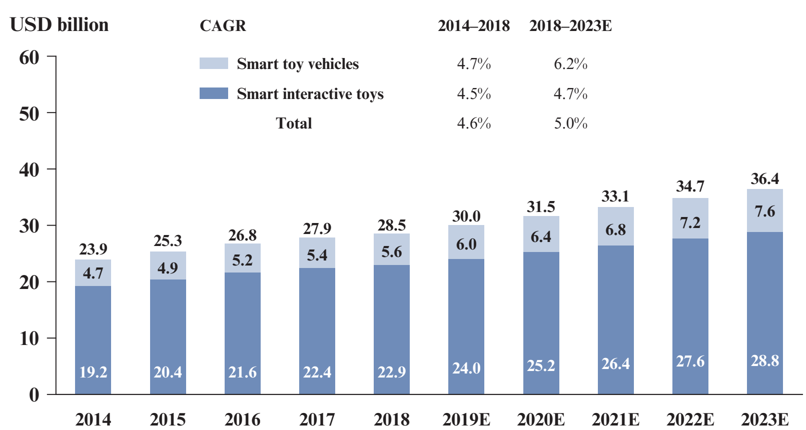
Definition and categorisation of the global smart toy market

A smart toy is a toy which effectively has its own innovated function by virtue of on-board electronics. It may be remote controlled or networked together with a controller or smart phone and may also have interactive features in order to enhance its recreational value or educational features. Broadly speaking, it can be defined as a group of toys which include smart toy vehicles and smart interactive toys.

Market size of the global smart toy market

From 2014 to 2018, the retail sales value of the global smart toys market is expected to increase from USD28.5 billion in 2018 to USD36.4 billion in 2023, accounting for 33.8% of the total global toy market due to the development of technology and the popularisation of novel designs. Smart toy vehicles accounted for 19.7% of the total smart toy market in terms of sales value in 2018.

Retail sales value of the smart toy market by type, global, 2014–2023E

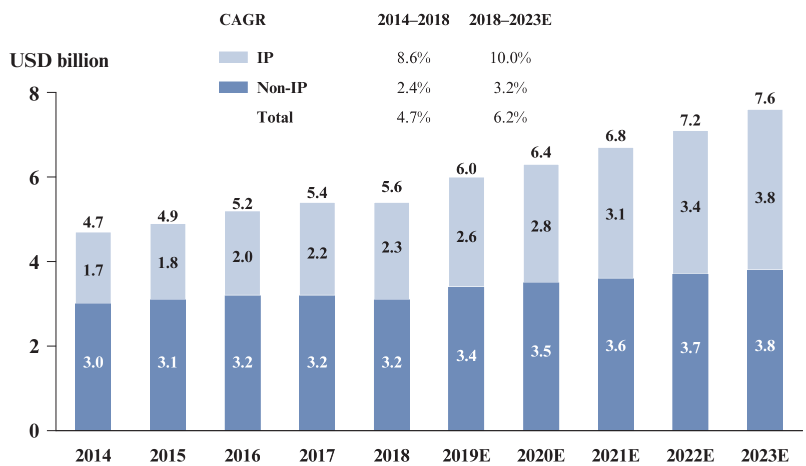


Source: CIC Report

IP refers to the protection which is extended to a piece of work or invention that is the result of an individual or groups creativity, such as a manuscript or a design, to which one has rights and for which one may apply for a patent, copyright, trademark, etc.. IP authorisation from vehicle brands means that vehicle brand owners, as licensors, permit toy vehicle manufacturers to use their vehicle brand or logo in toy vehicles through the form of licensing agreement.

For the global smart toy vehicle market, IP authorisation is becoming increasingly popular due to the growing consuming power of the average customer and the average consumer's increasing inclination to purchase well-designed and well-crafted toy vehicles. The IP authorised smart toy vehicle segment accounted for 41.7% of the global toy vehicle market in 2018 and is projected to further grow to 49.6% in 2023. The IP authorised toy vehicle segment also contributed to the majority of the market growth given that the CAGR for the 2018–2023 period is projected to be 10.0%, which is much greater than that of the non-IP authorised toy vehicle segment.

Retail sales value of the global smart toy vehicle market by IP authorisation, 2014–2023E



Source: CIC Report

OVERVIEW OF THE GLOBAL TRADITIONAL TOY MARKET

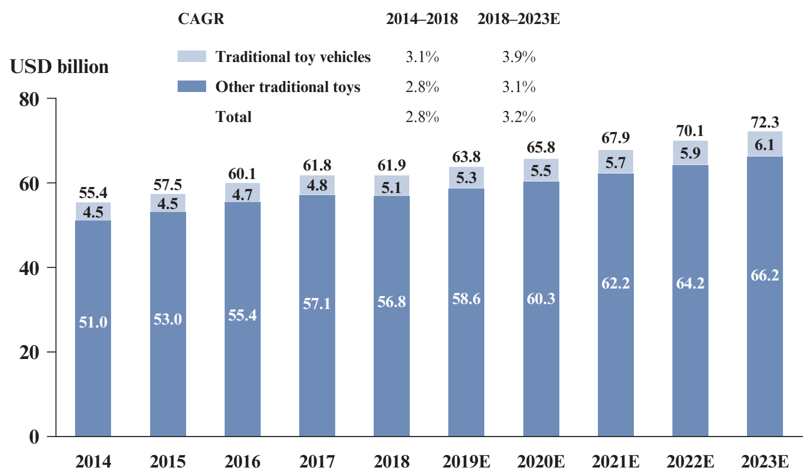
Definition and categorisation of the global traditional toy market

A traditional toy refers to any toy that needs to be moved manually by consumers and is usually a role play toy. Traditional toys are not powered by batteries, and they are not electronic toys with interactive abilities and they cannot be controlled remotely. Traditional toys include traditional toy vehicles, traditional educational toys, dolls and other traditional toys such as outdoor and sport as well as infant toys.

Market size of the global traditional toy market

The market size of global traditional toys grew steadily from USD55.4 billion in 2014 to USD61.9 billion in 2018, representing a CAGR of 2.8%, and is expected to further grow at a CAGR of 3.2% in 2018–2023. The growth of global traditional toy market is mainly driven by economic development. Traditional toy vehicles accounted for 8.2% of the total traditional toy market in terms of sales value in 2018.

Retail sales value of the global traditional toy market by type, 2014–2023E



Source: CIC Report

TOP RETAILERS OF THE GLOBAL TOY MARKET

There are two major types of retailers, namely comprehensive retailers and comprehensive toy speciality retailers. Comprehensive retailers, such as Walmart, Costco, Auchan, Argos, ASDA, Target and El Corte Inglés, focus more on end customers and sell a variety of groceries and goods. They have a great number of retail stores and generally cover multiple-nations. Comprehensive toy speciality retailers, in contrast, are involved in several sections among the whole industry chain such as designing, manufacturing, and retailing. The difference is that they are mainly responsible for more industry procedures and only sell toys. These retailers are mainly specialty stores such as Toys "R" Us, Smyths and Hamleys.

Major toy retailers of the global toy market, 2018

Company	Headquarter	Year established	Type of retailer	Total revenue in USD million	Number of retail stores	Business summary
Walmart	U.S.	1962	Comprehensive	514,405	11,368	The world's largest multinational retail corporation that operates a chain of hypermarkets
Costco	U.S.	1983	Comprehensive	149,616	762	The world's second largest multinational retail corporation which operates a chain of membership-only warehouse clubs
Auchan	France	1961	Comprehensive	55,900	4,084	The world's 11th largest retailer
Argos	U.K.	1972	Comprehensive	Not available	1,200	One of the UK's leading digital retailers, offers more than 60,000 products online and in-store
ASDA	U.K.	1960	Comprehensive	6,401	Not available	One of Britain's leading retailers, 22th most valuable retail brands 2018
Target	U.S.	1902	Comprehensive	75,360	1,849	The 13th largest multinational retailer in the world and the second largest in the United States
El Corte Inglés	Spain	1935	Comprehensive	17,646	Not available	The fourth largest department store in the world and the largest in Spain
Vanguard	China	1984	Comprehensive	15,119	3,192	The largest supermarket chain in China
Toys "R" Us Asia	HK	1948	Comprehensive toy speciality	~1,000	500	The largest toy, education and baby products retailer in Asia
Smyths	Ireland	1986	Comprehensive toy speciality	482	110	One of the largest toy retailers in Europe
Hamleys	U.K.	1981	Comprehensive toy speciality	72	224	An Indian-owned British multinational toy retailer, one of the oldest and largest retailers in the world
Ludendo	France	1977	Comprehensive toy speciality	Not available	Not available	The French leader in the game and toy retailing sector

Source: CIC Report

Most of the world-class toy companies prefer outsourcing part of or even all of their manufacturing to OEM or ODM companies for their lower labour costs and the lower value of manufacturing in the total value chain. The PRC manufacturers take the biggest proportion of the world's toy manufacturing due to the lower labour costs in the PRC. At the same time, as the PRC toy manufacturing market develops, companies are raising their designing and branding capabilities and are transforming from OEM to ODM and even OBM model, which are becoming strong competitors in the global market with increasing market share of their own brands.

OVERVIEW OF THE PRC TOY MANUFACTURING INDUSTRY

Definition and classification of the PRC toy manufacturing industry

The PRC hosts the largest toy manufacturing industry in the world, representing 87.9% of the total toy production in terms of manufacturing output. There are more than 1,000 scaled toy manufacturers in the PRC and they can be mainly divided into OEM, ODM, and OBM companies according to the specific sectors they are involved in. The PRC also boasts a few competitive co-brand manufacturers which refer to toy manufacturers that create toys with IP authorisation in the model of OBM, which means that it owns both IP authorisation and self-owned brand.

OEM

OEM refers to "original equipment manufacturing". An OEM company is responsible for producing toys according to their brand authoriser's specifications, and using downstream companies' labels. The gross profit margin of an OEM company is approximately 10–25%.

ODM

ODM stands for "original design manufacturing". An ODM company is able to design and produce toys with its own technologies and specifications, but it still needs to obtain brand authorisation and labels with the buyer's brand prior to manufacturing. The gross profit margin of an ODM company is approximately 20–35%.

OBM

OBM refers to "original brand manufacturing". The manufacturer owns the brand and is fully responsible for the design, engineering, manufacturing, and marketing of the product. In this case, there is no outsourcing of production and engineering activities. The gross profit margin of an OBM company is approximately 35–50%.

Domestic manufacturers have begun to focus more on the brand effect and research and development process as OBM companies often have the advantages of being independent from others' research and development, branding, manufacturing and distribution that cover the whole value chain, or only involve in high value-added links such as branding and designing. For example, several toy giants firmly cling to the highest value-added part of the industrial chain, and hand over most or all of the processing, manufacturing, and assembling to other companies, while they mainly focus on innovation and brand-building.

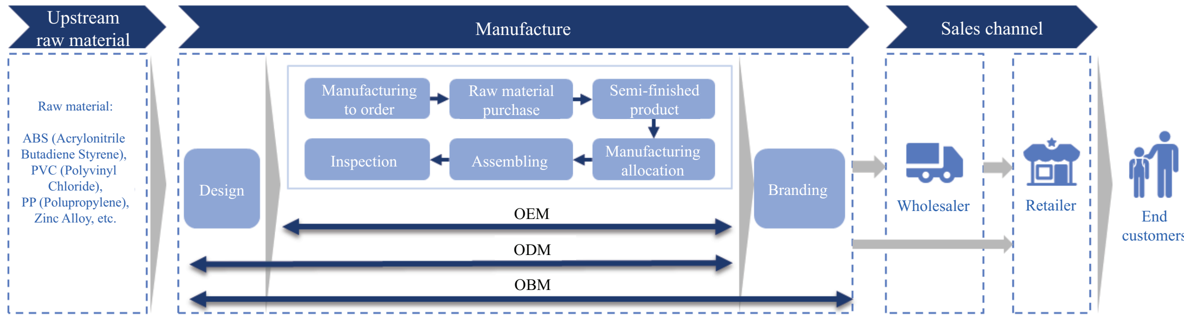
As the toy manufacturing industry has been established for many years in the PRC with companies having the experiences in manufacturing different types of toys for local and overseas toy brands, the toy manufacturing industry has become more familiar with toys produced in the PRC including product quality and production technology, resulting in the increase in willingness of manufacturers to develop their own brands which could capture market share directly and enhance their business continuity. In addition, the global market has improved its confidence in quality of toys produced in China, and fostered the growth in demand for co-branded toys and local branded toys produced in China. As such, the global demand for products produced by co-brands and local brands in the PRC continues to grow, resulting in the expected rapid growth in the output value of PRC OBM toy manufacturers.

Value chain analysis of the PRC toy manufacturing industry

The value chain of the PRC toy manufacturing industry consists of upstream raw material, manufacture, and downstream sales channel.

The PRC OBM manufacturers would prefer to sell to large retailers such as Walmart and Toys "R" Us, as they are direct key account customers with high reputation and the association with these reputable customers can help sales to other wholesalers in the overseas and the PRC. They would also sell through wholesalers for the following reasons. First of all, toy products go out of date easily and are of short lifecycle, and wholesalers have access to all kinds of toys and are more flexible. Thus retailers are more willing to cooperate with wholesalers given wholesalers could source different types of toy product from different toy manufacturers. Secondly, after gathering the actual orders from the respective customers, wholesalers usually place a bulk order with the manufacturers, while at the same time it will be more flexible for toy manufacturers to arrange production schedule. Finally, wholesalers are experienced and have done toy businesses with local retailers for many years. As a result, they have stronger bargaining power when dealing with local retailers and know how to better sell the products. It is a common industry practice that toy manufacturers not knowing the identity of the customers of the wholesalers. Due to (i) the relatively small in scale of operation and (ii) the products, and brands of the PRC OBM manufacturers have not been well established to ensure distributors confidence to distribute their products on a long term basis, it may not be affordable and feasible for the PRC OBM manufacturers to build up their own overseas sales networks or engage distributors to distribute their products. Therefore, it would be a good solution for manufacturers to deal with wholesalers if they want to enter into a new market quickly. Besides, wholesalers normally place order with toy manufacturers after they receive order from their customers. It is common for wholesalers to place orders based on the actual demand and therefore they normally do not keep inventories as it can reduce inventory risk. It is not a common industry practice for manufacturers to enter into long term agreement with wholesalers as (i) the transaction is an outright sales; and (ii) it is not the intention for the manufacturers to ask wholesalers to undertake distribution or promotional works in specific areas or regions as no other sales incentive is given to wholesalers. When dealing with distributors, the manufacturers are more likely to know the identities of the downstream customers of the distributors due to their high consistency of interest and tight relationship with distributors. However, the wholesalers generally do not share the information of their downstream customers with the manufacturers, and regard it as a kind of trade secret. Besides, it is an industry norm that some customers, particularly some large scale retailers with high bargain power, prolong payment to toy manufacturers.

Value chain analysis of toy manufacturing industry, the PRC, 2018



Source: CIC Report

With the wholesalers' advantages of higher flexibility, the PRC toy manufacturers export products through wholesalers contributed 59.9% of the export value of the PRC toy manufacturing industry in 2018, which is more than direct export.

The wholesalers in the PRC include PRC export-oriented wholesalers and PRC domestic-sale-oriented wholesalers. PRC export-oriented wholesalers refer to domestic wholesalers with a majority of their revenue generating from export business. When dealing with PRC export-oriented wholesalers, products are actually sold to foreign destinations and manufacturers generally do not know the final destinations of their products.

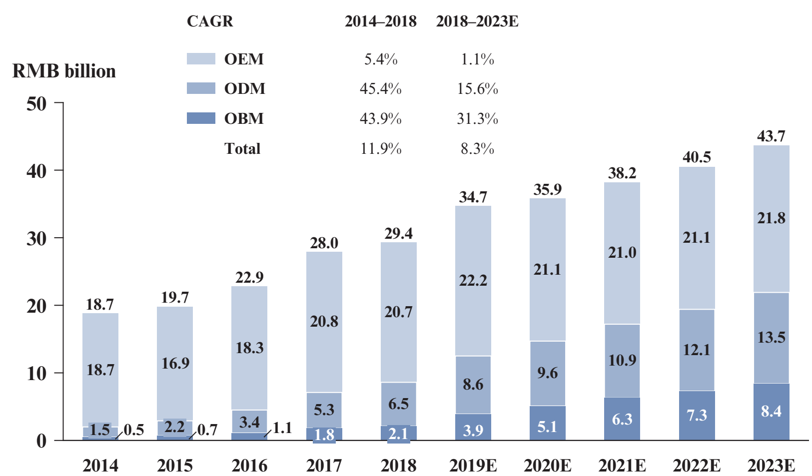
Generally, the packaging and instruction manuals are in English for the products sold to foreign customers and export-oriented wholesalers. In rare cases, when a single order is large, the manufacturer prints packages and instruction manuals in other languages, such as Spanish, depending on the customer's needs. For products sold to export-oriented wholesalers, it is usually the export-oriented wholesalers (or their customers) who will print the sticker and paste it on, if they need to add another language. Besides, foreign customers have many customised requirements. Tele-transfer and letters of credit are adopted in most cases when dealing with foreign customers.

There are numerous PRC Export-Oriented Wholesalers in the toy vehicle market in the PRC, and the market is scattered and the top 10 export-oriented wholesalers accounted for approximately 8.0% of the smart toy vehicle export value in 2018. Their export destinations are around the globe, and North America, Latin America, Western Europe and Asia Pacific accounted for the majority. The PRC domestic-sale-oriented wholesalers market is scattered with numerous industry players. The PRC domestic-sale-oriented wholesalers mainly include companies such as Shenzhen Weihongyuan Industrial Development Co Ltd (深圳市偉宏源實業發展有限公司) in Shenzhen. Its revenue amounted to approximately RMB60 million in 2018 with Walmart across the PRC being its major clients.

Market size of the PRC toy vehicle manufacturing industry

The PRC toy vehicle manufacturing industry experienced a steady CAGR of 11.9% in 2014–2018, and is expected to further grow at a CAGR of 8.3% in 2018–2023, mainly due to the popularity of smart toys and IP authorised toys. In addition, the development of OBM companies has also brought about the higher value of the PRC toy vehicle manufacturing industry in the global value chain. The output value of the PRC OBM toy vehicle manufacturing industry increased rapidly from RMB0.5 billion in 2014 to RMB2.1 billion in 2018, representing a CAGR of 43.9%, and is expected to further grow at a CAGR of 31.3% in 2018–2023. The growth of OBM market is mainly driven by (i) the increase in global demand for China's OBM products as the products have better quality, leads to the organic revenue growth of OBM companies; and (ii) an increase in proportion of manufacturers transferring from OEM-oriented companies to OBM-oriented companies, due to their increasing design and branding capabilities.

[1]Output value of the PRC toy vehicle manufacturing industry by manufacturer type, 2014–2023E



Source: CIC Report

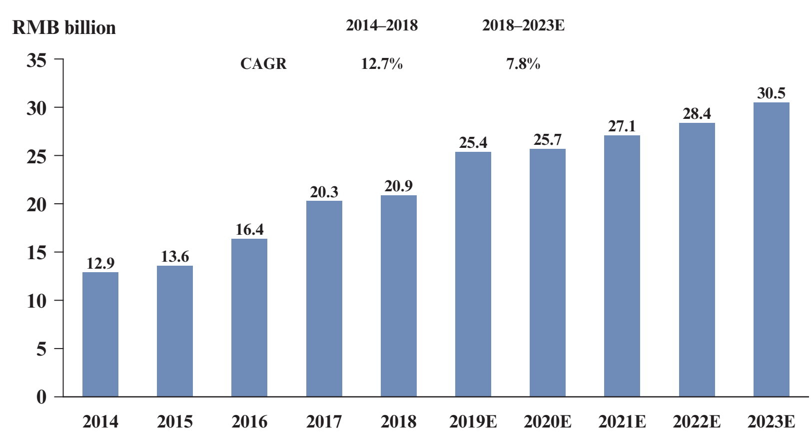
The export value of the PRC toy vehicle manufacturing industry grew steadily from RMB12.9 billion in 2014 to RMB20.9 billion in 2018 with a CAGR of 12.7%. This growth rate is expected to slow down in future mainly due to the Sino-U.S. trade war and the PRC increasing labour costs. The export value is expected to grow at a CAGR of 7.8% during 2018–2023. In terms of the PRC toy manufacturing, some of the less competitive smaller manufacturers will be affected by the Sino-U.S. trade war and will be replaced by those with lower labour costs like Vietnamese manufacturers, while the leading enterprises in the PRC are unlikely to be taken over due to the scale effect and their higher R&D capability as well as competitive power.

According to the CIC Report, the growth rate of export value of China's toy manufacturing industry slowed down in 2018 to approximately 4.5%, compared to the growth rate of 2016 of approximately 25.2% and 2017 of approximately 32.0%. Such slow growth is mainly due to the immediate effect of the bankruptcy of Toys "R" Us. Therefore, the export value of China's toy manufacturing industry only increased slightly from approximately RMB161.2 million in 2017 to RMB168.4 million in 2018. As mentioned above, the Toy "R" Us bankruptcy is an isolated case with no long-term impact on the global market. According to China's General Administration of Customs, China's toy exports amounted to USD12.17 billion in the first half of 2019, represented the increase of approximately 23.7% from the same period last year. Also, the Sino-US trade war intensified in 2019. The U.S. is one of the major export market of China's toy manufacturing

[1]*Note:* Output value refers to the total value of all products sold by the manufacturers in the year measured at the factory price.

industry. Therefore, it is one of the factors for the U.S. customers to fix order earlier in the first of 2019 and before the introduction of additional ad valorem duty on toys. On 18 December 2019, at the direction of the president of the US, the US government determined to suspend indefinitely the imposition of the additional 15% ad valorem duty on certain Chinese imported goods in the Fourth List, including toys. Subsequently, on 15 January 2020, the US and the PRC government signed the phase one agreement aimed at easing the Sino-US trade war. Pursuant to such agreement, among others, US tariffs on approximately USD370 billion Chinese goods remain in place while avoiding the threat of further escalation. In addition, the US president said that the tariffs that remain would be removed pending progress on the second phase of negotiations. Accordingly, the imposition of proposed US tariff on toys exported from the PRC to the US shall continue to be suspended indefinitely, subject to further negotiation between the US and the PRC governments. On 6 February 2020, the Chinese officials announced that tariffs that the Chinese government imposed on some US goods since 1 September 2019 would be cut from 10% to 5%, and on others from 5% to 2.5%. Such reduction in tariffs has become effective since 14 February 2020, as Chinese officials' first response to the phase one agreement.

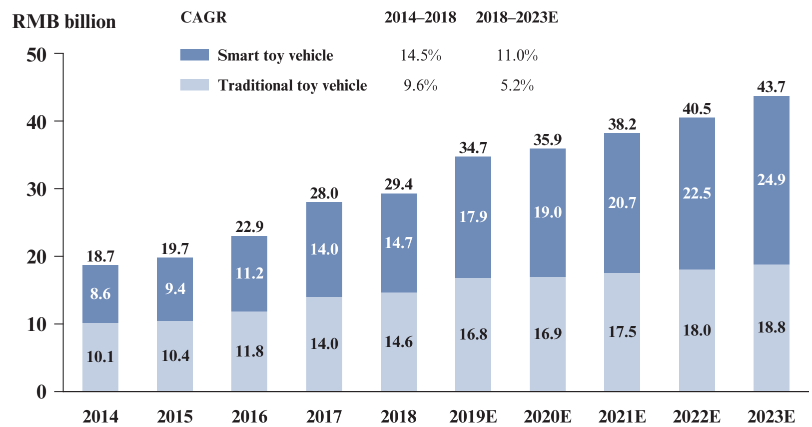
Export value of the PRC toy vehicle manufacturing industry, 2014–2023E



Source: CIC Report

The size of the PRC smart toy vehicle manufacturing market, as measured by output value, increased from RMB8.6 billion in 2014 to RMB14.7 billion in 2018, representing a CAGR of 14.5%, and it is expected to further grow to RMB24.9 billion in 2023, representing a CAGR of 11.0%. This is mainly due to the increasing global demand for smart toys. The size of the PRC traditional toy vehicle manufacturing market increased from RMB10.1 billion in 2014 to RMB14.6 billion in 2018, representing a CAGR of 9.6%, and is expected to further grow at a CAGR of 5.2% in 2018–2023.

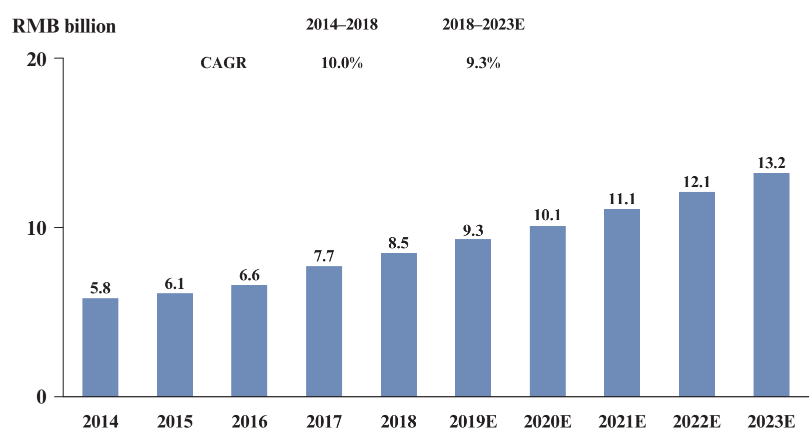
Output value of the PRC toy vehicle manufacturing industry, 2014–2023E



Source: CIC Report

The market size of the PRC toy vehicle manufacturing industry in the PRC market in terms of output value witnessed the rapid growth in 2014–2018 with a CAGR of 10.0%, and is expected to keep increasing at a CAGR of 9.3% in the forecast period, from RMB8.5 billion in 2018 to RMB13.2 billion in 2023. The increasing demands from the PRC market would drive the development of the total manufacturing market steadily. Over half of the toy vehicles are sold through wholesalers in the PRC market.

Market size of the PRC toy vehicle manufacturing industry in the PRC markets in terms of output value, 2014–2023E



Source: CIC Report

Entry barriers of the PRC toy manufacturing industry

1. IP authorisation

As consumption power is increasing, people are becoming increasingly attracted to IP toys due to their official authorisation and higher quality. With the rapid development of the internet, consumers have unprecedented access to different forms of entertainment, such as movies, animation, and cartoons etc., which offer numerous avenues for these consumers to engage with their favourite IP content and with greater convenience. IP licensed toys will continue to attract and encourage consumers to pay for the IP content that they are interested in. Toy manufacturers with IP authorisation would be more competitive in the PRC toy manufacturing industry.

2. R&D capability

The technology capability of producing smart toys is increasingly becoming a significant entry barrier for the PRC toy manufacturing industry. The smart toys market has emerged and has become the future trend of new products. Smart toys are favoured by consumers and the trend of intelligentisation for toys is expected to become more prevalent in the future. Interactive, high-tech toys have gradually become the mainstream of the industry and the combination of computer technology and toys now represents the future of the global toy market. High-tech toys satisfy the curiosity of consumers, while strengthening the consumer's interactive experience with these products.

3. Scale effect

The toy manufacturing industry is scattered in the PRC. Most of the manufacturers are small and medium scaled with average revenues of approximately RMB30 million, which means that the market is increasingly competitive. Therefore, large companies with high scale efficiency are expected to be more competitive due to their relatively lower costs of goods sold. While small companies without scale efficiency may find it hard to cope with the impact of some global incidents, such as the bankruptcy of Toys "R" Us and the Sino-U.S. trade war.

4. Sales channel

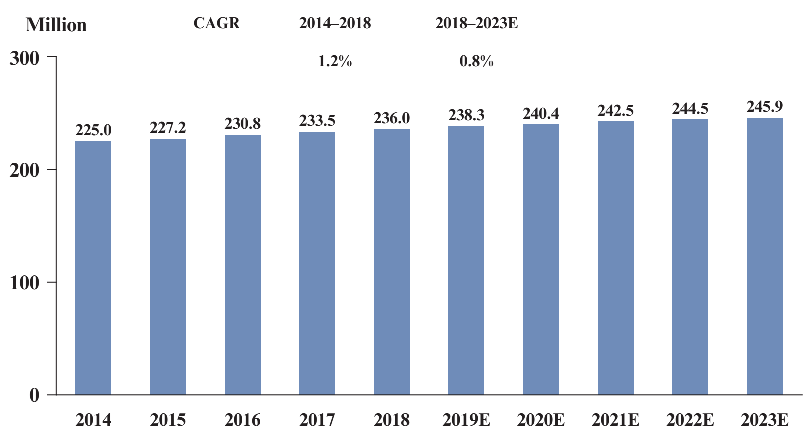
For companies in consumer products industry, sales channel capability is significant when competing with other companies. When a company covers a large number of wholesalers and retailers, it may be able to procure sales from various sources. A company with large and famous customers such as Walmart may get stable orders of large amounts. Besides, the variety of a company's sales channel also raises its risk resistance capacity. For example, a company with various customers may be less affected facing the bankruptcy of Toy "R" Us and the Sino-U.S. trade war.

Drivers of the PRC toy manufacturing industry

1. Promising domestic retail market for toys

The PRC extensive child population base has been and is expected to continue to be an important driver for the domestic retail market and will further promote the development of the PRC toy manufacturing industry. The number of children under the age of 14 will expand to 245.9 million in 2023, which is expected to stimulate the toy market. The advantages of the extensive child population will be further stimulated by the development of the economy. Particularly, children between the ages of 10–14 will witness a higher growth within the overall population. With increasing per capita disposable income and changes in the household structure in the PRC, parents have been and are expected to spend more on their children's education and entertainment including investments in smart toys. As a result, the PRC has one of the highest growth rates in the global toy market, which will upsize the toy manufacturing industry.

Number of children under age 14, China, 2014–2023E



Source: CIC Report

2. The continuously increasing demand for toy exports worldwide

The global demand for toy keeps increasing, mainly driven by the steadily increasing number of children and economic growth. The retail sales value is expected to grow from USD90.4 billion in 2018 to USD108.7 billion in 2023, representing a CAGR of 3.8%, and is expected to drive the global demand for toy export. In addition, the global market has improved its confidence in toys product in China, and fostered growth in demand for toy export.

The PRC is the world's largest toy manufacturer and exporter, with toy exports reaching RMB168.4 billion in 2018, being partly driven by the depreciation of the RMB and the advantage of relatively low labour costs. Although labour costs are rising and an increasing number of toy manufacturers has tended to shift to Vietnam, Poland and other regions, the PRC fundamental advantages will continue and it will remain the largest toy manufacturer in the world. As for the export destinations, the U.S. accounts for the largest proportion in the PRC toy export value, and the proportion is expected to decrease due to the Sino-U.S. trade war.

Due to the bankruptcy of Toys "R" Us and the Sino-U.S. trade war, the toy export business has been slightly affected and is under more pressure than ever before. However, the U.S. toy retail market has shown itself to be stable and will recover steadily.

The PRC is the largest toy manufacturer in the world, producing 87.9% of all toys consumed globally in terms of sales value. This proportion is expected to grow in the future, being driven mainly by the increasing demand for toys across the world and this will stimulate the development of the manufacturing industry.

3. *Industrial cluster effect and enhanced R&D and branding capabilities*

Guangdong is one of the largest toy production bases in the PRC, in which industrial clusters of the PRC plastic toy products are mostly located in Chenghai, one of Guangdong's districts, which is famous and called as "Toys and Craft City", and buyers can find the most centralised and innovative toy manufacturers there. Chenghai's toy industry began as a series of small purpose-built factories and workshops which were localised to the region. However, unlike the export-oriented OEM mode adopted by enterprises in Dongguan, Foshan and other areas, Chenghai's local enterprises continuously strove to achieve greater heights of independent innovation and independent brands. At present, Chenghai commands a well-trained and diverse electric and smart toy personnel base as well as skilled workers from various regions of the PRC and overseas. This offers different recruitment advantages to localised manufacturers in this area when expanding their business. In addition, it also means that it is convenient to purchase raw materials and the components needed for production as these can be procured locally. As a result, industry giants can gradually outsource these processes with lower technological requirements and added value to adjacent factories which will allow them to invest more in technological innovations. The business cluster can make the whole production chain more efficient and will serve as a catalyst for improving technological innovation.

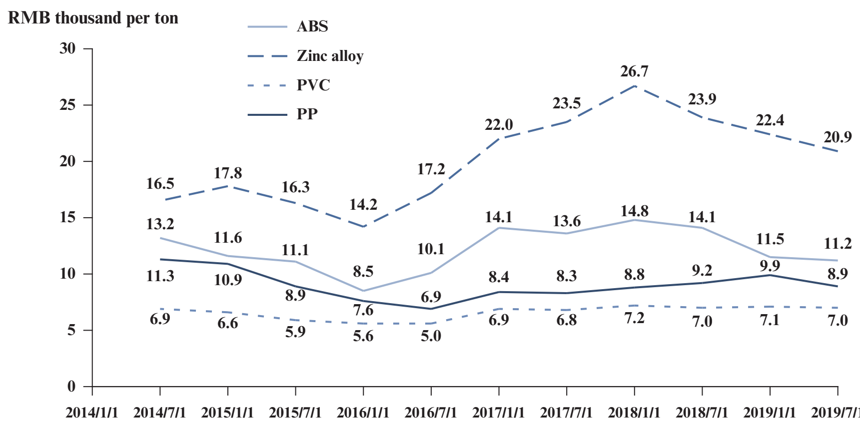
With the trend of intensifying intellectualisation, R&D ability has become the core competitiveness of toy manufacturers. Shenzhen is the PRC leading innovative city, known as "China's Silicon Valley", and is promoting the rapid development of technology in the Pearl River Delta Economic Zone (including Chenghai). A rapidly expanding number of toy manufacturers have invested more in R&D and gradually formed a pan-entertainment industry layout with technology and their brands as the core of their business models. The share of OBM and ODM companies are expected to increase 19.0% between 2014 and 2023, which means toy companies have been focusing more on brand operation and toy research and design, which are the higher value-added links in the industry chain. Relying on this to develop differentiated products and propriety brands will promote the domestic toy manufacturing industry, especially for smart toys.

Taking together with re-exports, Hong Kong is one of the world's largest toy exporter. Hong Kong exporters are known for selling high-quality toys, with a large share of industry revenues generated from contract manufacturing with overseas manufacturers and licence holders. To reduce operation costs and stay competitive, the majority of Hong Kong toy makers have set up production facilities outside Hong Kong, mainly in the PRC. The role of their Hong Kong office has shifted towards quality control, management, marketing, product design and production planning. Manufacturers in Chenghai are close to Hong Kong and have the advantages in export business, especially those have subsidiary corporations in Hong Kong, such as our Group.

Analysis of the raw materials required for the PRC toy manufacturing industry

A toy can potentially contain several components including metal or plastic materials, motors and batteries, electronic parts and exterior wrappers based on the specific type and function of the toy. Among these materials, plastic and metal materials play important roles in the manufacturing process, accounting for approximately 50% of the total overall direct material cost. It is clear that the price of major raw materials, such as ABS, PVC, PP and Zinc alloy, have been decreasing since mid-2018, which is benefiting the whole toy manufacturing industry in the PRC.

Raw material price trend, PRC, 2014–2019 (First half)



Source: CIC Report

Labour costs have a great impact on the costs and profitability of the toy manufacturing industry. With China's economic growth and industrial upgrading, the advantage of cheap labour is weakened. The average annual wage of manufacturing workers has increased from RMB51,369 in 2014 to RMB69,959 in 2018, representing a CAGR of 8.0%. As labour costs increase, some of the customers may gradually shift their manufacturing to countries with lower labour costs, such as Vietnam. While large companies that have completed upgrading from OEM to OBM will not be affected.

Future trends of the PRC toy manufacturing industry

1. Increase industry concentration

The PRC toy industry is extensive in scale and is growing rapidly. However, the industry concentration overall is much lower than that of developed countries. Most of the manufacturers are small and medium scaled, which means that the market is increasingly competitive. Industry shuffling is also accelerating for several reasons including the continuing Sino-U.S. trade war, stricter foreign and domestic safety controls and rising labour costs. This means that small and medium-sized manufacturers with weak competitiveness will be eliminated gradually and in the long-term industry concentration will increase.

2. Rapid growth of domestic retail market

In the PRC, the consumption on toys per capita is much lower than that of developed countries, and there is significantly more potential room for growth in the market. With the increase of disposable income in the PRC households, the consumption structure of families has been upgraded from necessary needs to that of discretionary consumption. Families now ideally prefer to devote more income to children's entertainment, expanding the domestic retail market for toys. Moreover, given the effects of the Sino-U.S. trade war, export-oriented enterprises have started to shift their business to domestic sales, causing the domestic market to grow even more rapidly.

3. Higher entry barriers for the export market

In 2017, 612 batches of toys exported from the PRC to the EU were investigated and confined by Rapid Exchange of Information System (RAPEX). The main reasons for the notification included dangerous parts and excessive phthalate content. A growing number of countries have implemented different safety standards and, frequently, have shown a trend of tightening safety controls. Quality and safety control requires enterprises to invest in R&D to make sure products are made of safe environmental-friendly materials. Therefore, the threshold for exports is becoming much higher and it will be more difficult for small and medium-sized enterprises to enter the export market in the immediate future.

4. Increasing importance of R&D capabilities

With the improvement of household consumption levels, and the development of technology and safety standards, consumers now tend to pay more attention to the quality and the added value of products, such as entertainment, education, emotional appeal, etc.. As the recognition of smart toys is increasing, smart toys are becoming increasingly popularised among both children and adults. Moreover, because of the differences in age, sex, hobbies and purchasing power, there are great differences in consumer demands. As such, toy manufacturers need to strengthen their investment in intelligent products and conduct more diversified design strategies.

5. Re-shuffling of sales channels

The bankruptcy of Toys "R" Us has put pressure on most toy enterprises in the PRC in the short run. With the re-shuffling of overseas channels, leading enterprises can quickly find new customers, ease export pressure and reduce the long-term impact of bankruptcy or reduce the reliance on a particular customer due to their diversity of sales channel layout. The global online sales value in the toy market grew rapidly at a CAGR of 20.4% from 2014 to 2018, and the CAGR in North America, Europe and PRC was 25.6%, 22.4% and 23.9%, respectively. Compared with offline channels, online retail has great advantages including convenience, diversity and high cost performance, and thus this rapid growth is expected to continue in the future.

6. *Affected by Sino-U.S. trade war*

As the Sino-U.S. trade war intensifies, it was announced on 13 August 2019 that the effective date of imposing additional ad valorem duty on certain items included in the fourth list, including certain toys, will be delayed until 15th December 2019 or removed. On 18 December 2019, at the direction of the president of the US, the US government determined to suspend indefinitely the imposition of the additional 15% ad valorem duty on certain Chinese imported goods in the Fourth List, including toys. Subsequently, on 15 January 2020, the US and the PRC government signed the phase one agreement aimed at easing the Sino-US trade war. Pursuant to such agreement, among others, US tariffs on approximately USD370 billion Chinese goods remain in place while avoiding the threat of further escalation. In addition, the US president said that the tariffs that remain would be removed pending progress on the second phase of negotiations. Accordingly, the imposition of proposed US tariff on toys exported from the PRC to the US shall continue to be suspended indefinitely, subject to further negotiation between the US and the PRC governments. On 6 February 2020, the Chinese officials announced that tariffs that the Chinese government imposed on some US goods since 1 September 2019 would be cut from 10% to 5%, and on others from 5% to 2.5%. Such reduction in tariffs has become effective since 14 February 2020, as Chinese officials' first response to the phase one agreement. The PRC is the largest toy manufacturer in the world, accounting for 87.9% of the global toy retail value. Over 70% of the toys retailed in the U.S. are made in the PRC, representing their high dependency on the PRC toy manufacturers. On the other hand, the toys exported to the U.S. was only RMB52.0 billion, accounting for 30.9% of the PRC total toy export value in 2018, and U.S. market is already mature with steady CAGR of 2.6% in the forecast period of 2018–2023. Besides, Chinese manufacturers or wholesalers typically bill and settle accounts with foreign customers in USD, so the appreciation of US dollar against RMB will partly offset the impact of tariff since the sales and amounts received by Chinese manufacturers and wholesalers in terms of RMB has been increased. Some of the less competitive small manufacturers in China will be affected by the Sino-U.S. trade war and will be replaced by those with lower labour costs, such as Vietnamese manufacturers. In conclusion, China's toy manufacturers are less likely to be affected by the Sino-U.S. trade war, while the tariff is expected to be undertaken by manufacturers, wholesalers, retailers, and consumers together.

COMPETITIVE LANDSCAPE

Competitive landscape of the PRC toy manufacturing industry

China's toy manufacturing industry is highly fragmented as the top 10 market players sharing 2.1% of the market share in 2018 in terms of revenue. Our Group ranked ninth with a market share of 0.1% in 2018. Alpha Group ranked first and is one of China's most powerful animation and entertainment cultural industry players, which engages in production, publishing and authorisation of animation feature films, the development, production and sale of animation and non-animation toys, and operation of media advertising. GuangDong First Union Animation Technology Co Ltd. ranked second in 2018 and is an enterprise that produces various OEM series plastic electronic smart toys.

Top 10 domestic players in toy manufacturing industry, the PRC, 2018

Company	Listed/Unlisted	Operation mode	Revenue derived from toy business	Market share
			(RMB mn)	*(Approximate %)*
Alpha Group (奧飛娛樂股份有限公司)	002292.SZ	OBM, OEM	1,377.5	0.6%
GuangDong First Union Animation Technology Co Ltd. (廣東順聯動漫科技有限公司)	N/A	OEM	910.0	0.4%
Rastar Group (星輝互动娛樂股份有限公司)	300043.SZ	ODM,OBM	562.4	0.2%
Shantou MZ Model Co Ltd. (廣東美致智教科技股份有限公司)	N/A	OBM	500.0	0.2%
Goldlok Toys Holdings (Guangdong) Co Ltd. (廣東高樂玩具股份有限公司)	002348.SZ	OBM	460.0	0.2%
Ban Bao Co Ltd. (廣東邦寶益智玩具股份有限公司)	603398.SH	OBM, OEM	380.0	0.2%
Guangdong Jaki Technology and Education Co Ltd. (廣東佳奇科技教育股份有限公司)	N/A	OBM, ODM	304.5	0.1%
Guangdong Yulee Technology Co Ltd. (廣東裕利智能科技股份有限公司)	836405.OC	ODM, OEM	289.4	0.1%
Our Group	N/A	OBM, ODM, OEM	272.3	0.1%
Shifeng Cultural and Development Co Ltd. (實豐文化發展股份有限公司)	002862.SZ	OBM, OEM	268.9	0.1%

Source: CIC Report

Competitive landscape of the PRC toy vehicle manufacturing industry

The PRC toy manufacturing industry and the PRC toy vehicle and smart toy vehicle manufacturing industry are both highly fragmented. The PRC toy vehicle manufacturing industry is scattered with a concentration rate of 5.9% from the largest 10 companies in terms of revenue. The Rastar Group (stock code: 300043.SZ) ranks first with a market share of 1.3% in terms of revenue, followed by our Group with a market share of 0.8%, and our Group ranks first among the unlisted companies. In the smart toy vehicle market, the top 10 companies accounted for 9.2% of the total market in terms of revenue in 2018, with the Rastar Group (stock code: 300043.SZ) and our Group also ranking first and second respectively in 2018. Other companies include Shifeng Cultural Development Co Ltd. (stock code: 002862.SZ), Goldlok Toys Holdings (Guangdong) Co Ltd. (stock code: 002348.SZ), Haoyuan, etc.. Our Group is one of the few companies that have Hong Kong operation for overseas sales as well as product design. As the PRC toy manufacturing industry develops, designing and branding capabilities have become increasingly important competing power. Most of the top companies major in ODM and OBM, while low-ranking small companies still major in the OEM mode. Besides, in the area of smart toy vehicles, IP authorisation from branded vehicles is also of great value. Top companies like the Rastar Group (stock code: 300043.SZ) and our Group have the most number of IP authorisations in terms of vehicle brands.

"Co-brand" in the smart toy vehicle manufacturing industry refers to smart toy vehicles with IP authorisation from third parties together with manufacturers' own brands that are manufactured under the OBM mode. The high revenue of co-brand business shows the companies' strong designing and branding capabilities, leading to increased competing power. The Rastar Group (stock code: 300043.SZ) and our Group ranks first and second in terms of revenue generated from the co-brand business, and both are in strong positions in the PRC smart toy vehicle manufacturing industry.

Top 10 domestic players in the toy vehicle manufacturing industry, the PRC, 2018

Ranking	Company	Listed/ Unlisted	Operation mode	Revenue from toy vehicle business	Market share
				(RMB million)	*(%)*
1	Rastar Group (星輝互動娛樂股份有限公司)	300043.SZ	OBM, ODM	398.9	1.3
2	Our Group	N/A	OBM, ODM, OEM	252.6	0.8
3	Alpha Group (奧飛娛樂股份有限公司)	002292.SZ	OBM, OEM	206.6	0.7
4	Shantou MZ Model Co Ltd. (美致模型股份有限公司)	N/A	OBM	200.0	0.6
5	Shifeng Cultural Development Co Ltd. (實豐文化發展股份有限公司)	002862.SZ	OBM, OEM	176.6	0.6
6	Goldlok Toys Holdings (Guangdong) Co Ltd. (廣東高樂玩具股份有限公司)	002348.SZ	OBM	156.3	0.5
7	Doubleeagle Industry (China) Ltd. (廣東雙鷹玩具實業有限公司)	N/A	OBM	130.0	0.4
8	Shantou Chenghai Haoyuan Toys Factory (汕頭市澄海區浩源玩具廠)	N/A	OBM	120.0	0.4
9	Guangdong Creative Double Star Technology Co Ltd. (廣東創意雙星科技股份有限公司)	N/A	OBM, ODM	118.6	0.4
10	Guangdong Yulee Technology Co Ltd. (廣東裕利智能科技股份有限公司)	836405.OC	ODM, OEM	72.4	0.2

Source: CIC Report

According to the CIC Report, it is common for the top 10 domestic players in the toy vehicle manufacturing industry in the PRC to work with wholesalers, and most of the top 10 domestic players export products to overseas through PRC export-oriented wholesalers.

Top 10 domestic players in the smart toy vehicle manufacturing industry, the PRC, 2018

Ranking	Company	Listed/ Unlisted	Operation mode	Revenue from smart toy vehicle business	Market share
				(RMB million)	*(%)*
1	Rastar Group (星輝互動娛樂股份有限公司)	300043.SZ	OBM, ODM	359.0	2.3
2	Our Group	N/A	OBM, ODM, OEM	218.1	1.4
3	Shifeng Cultural Development Co Ltd. (實豐文化發展股份有限公司)	002862.SZ	OBM, OEM	173.1	1.1
4	Shantou MZ Model Co Ltd. (美致模型股份有限公司)	N/A	OBM	150.0	1.0
5	Goldlok Toys Holdings (Guangdong) Co Ltd. (廣東高樂玩具股份有限公司)	002348.SZ	OBM	125.0	0.8
6	Shantou Chenghai Haoyuan Toys Factory (汕頭市澄海區浩源玩具廠)	N/A	OBM	120.0	0.8
7	Guangdong Creative Double Star Technology Co Ltd. (廣東創意雙星科技股份有限公司)	N/A	OBM, ODM	95.7	0.6
8	Doubleeagle Industry (China) Ltd. (廣東雙鷹玩具實業有限公司)	N/A	OBM	91.0	0.6
9	Guangdong Yulee Technology Co Ltd. (廣東裕利智能科技股份有限公司)	836405.OC	ODM, OEM	61.5	0.4
10	Alpha Group (奧飛娛樂股份有限公司)	002292.SZ	OBM, OEM	51.7	0.3

Source: CIC Report

The traditional toy vehicle market is scattered with over 1,000 industry players. Most of these industry players are private companies without any public operational or financial information. In the traditional toy vehicle market, our Group holds the market share of 0.2% in terms of output value of traditional toy vehicle of the PRC toy vehicle manufacturing industry in 2018, and other major companies include Alpha Group (stock code: 002292.SZ), Rastar Group (stock code: 300043.SZ).

Major domestic players in traditional toy vehicle manufacturing industry, the PRC, 2018

Company	Listed/Unlisted	Operation mode	Revenue from traditional toy vehicle business	Market share
			(RMB mn)	*(%)*
Alpha Group (奧飛娛樂股份有限公司)	002292.SZ	OBM, OEM	155.0	1.0%
MZ Model (美致智教)	N/A	OBM	50.0	0.3%
Rastar Group (星輝互動娛樂股份有限公司)	300043.SZ	OBM, ODM	39.9	0.3%
Doubleeagle Industry (China) Ltd. (廣東雙鷹玩具實業有限公司)	N/A	OBM	39.0	0.3%
Our Group	N/A	OBM, ODM, OEM	34.5	0.2%

Source: CIC Report

This section provides a summary of the major aspects of the principal laws, rules and regulations that are relevant and material to our current and future businesses and how these laws, rules and regulations will affect our business operations and future developments. As this is a summary, it does not contain a detailed analysis of the laws, rules and regulations which are relevant to our business and operations. Prospective investors should not place undue reliance on the statements under this section and should consult their own professional advisers about the laws, rules and regulations referred to under this section.

This section sets forth a summary of the major aspects of the principal laws, rules and regulations applicable to our business operations in the PRC and Hong Kong.

LAWS AND REGULATIONS IN THE PRC

Regulations concerning companies and foreign investment

The establishment, operation and management of corporate entities in the PRC are governed by the Company Law of the PRC (《中華人民共和國公司法》), which was promulgated on 29 December 1993, came into effect on 1 July 1994 and was subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005, 28 December 2013 and 26 October 2018. The Company Law of the PRC generally governs two types of companies, namely limited liability companies and joint stock limited companies. Both types of companies have the status of legal persons, and the liability of shareholders of a limited liability company or a joint stock limited company is limited to the extent of the capital contributions they have contributed or the shares they have subscribed to. The Company Law of the PRC shall also apply to foreign-invested companies in the form of limited liability companies or joint stock limited companies. Where laws on foreign investment have other stipulations, such stipulations shall apply.

Pursuant to the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》), which was issued on 15 March 2019 and came into force on 1 January 2020, the PRC will further accelerate the country's opening-up, vigorously boost foreign investment, protect the lawful rights and interests of foreign investors. The country's various policies to support the development of enterprises shall equally apply to foreign-invested enterprises according to the law. A foreign investor may, according to the law, freely transfer into or out of China, in RMB or a foreign currency, its capital contributions made, profits, capital gains, proceeds from disposition of assets, and royalties of intellectual property rights, indemnity or compensation lawfully acquired, and income from liquidation etc.. A foreign investor may not invest in a field which is prohibited by the foreign investment access negative list from investment; to invest in a field restricted by the foreign investment access negative list from investment, a foreign investor shall meet the investment conditions set out in the negative list; for fields outside of the foreign investment access negative list, investment administration shall be conducted under the principle of equal treatment to domestic and foreign investment.

The former State Development Planning Commission, the former State Economic and Trade Commission and the former Ministry of Foreign Economy and Trade firstly jointly promulgated the Catalogue for the Guidance of Foreign Investment Industries (《外商投資產業指導目錄》) in 1995, which specifically lists out those industries and economic activities in which foreign investment in the PRC is encouraged, restricted or prohibited. The current version in force was jointly promulgated by the NDRC and the MOFCOM on 28 June 2017 and came into effect on 28 July 2017.

The NDRC and the MOFCOM jointly promulgated the Special Administrative Measures (Negative List) for the Access of Foreign Investment (the 2019 Version) (《外商投資准入特別管理措施(負面清單)(2019年版本)》) (the "**Negative List**") on 30 July 2019, with effect from 30 July 2019. It revised regulations on restricting and prohibiting industries with foreign investment in the Guidance of Foreign Investment Industries, and turns to implement special administrative measures uniformly on these industries, including setting requirements on the proportion of equity in specific fields of foreign investment, forbidding some fields of foreign investment, etc.. Fields not on the Negative List shall be administered under the principle of equal treatment to domestic and foreign investment.

Regulations concerning foreign exchange

The main requirements for the control of foreign exchange in the PRC are the Regulation on Foreign Exchange Administration of the PRC (《中華人民共和國外匯管理條例》) (the "**Foreign Exchange Regulation**") issued by the State Council on 29 January 1996 and amended on 14 January 1997 and 5 August 2008, respectively. According to the Foreign Exchange Regulation, RMB can be freely converted into other currencies in terms of current accounts (referring to transactions involving goods, services, income and frequently transferred transactions in the international balance of payments). However, for most capital projects (referring to a transaction item causing changes to the international level of assets and liabilities in the international balance of payments, and including capital transfers, direct investments, portfolio investments, derivatives and loans, etc.), exchange of RMB into other currencies is still regulated. The foreign exchange income of domestic institutions and domestic individuals may be transferred back to the territory of the PRC or deposited overseas; the specific conditions and term requirements shall be determined by the foreign exchange administrative department of the State Council in light of the international balance of payments and the foreign exchange administrative requirements.

Pursuant to the Notice of the SAFE on the Relevant Issues Concerning the Issuance of Foreign Exchange Control Regulations for the Trade of Goods (《國家外匯管理局關於印發貨物貿易外匯管理法規有關問題的通知》), which was issued on 27 June 2012 and implemented on 1 August 2012 and its annex, the Guidelines for Foreign Exchange Management of Goods Trade (《貨物貿易外匯管理指引》) and the Implementation Rules for Foreign Exchange Management of Goods Trade (《貨物貿易外匯管理指引實施細則》), the SAFE, the General Administration of Customs (海關總署) and the SAT have decided to implement the reform of the foreign exchange management system for goods trade nationwide since 1 August 2012. After obtaining the right to engage in foreign trade by law, enterprises shall undergo the formalities for registration in the "Trade Foreign Exchange Income and Expenditure Business Directory" at foreign exchange authorities on the basis of relevant materials. Enterprises shall declare foreign exchange payments and receipts for trade according to the provisions on the declaration of balance-of-payments statistics and the declaration of information on foreign exchange payments and receipts for trade and fill out the relevant declaration documents based on the flow of foreign exchange payments and receipts for trade. Enterprises shall handle foreign exchange payments and receipts under the principle of "whoever exports collects foreign exchange and whoever imports pays foreign exchange". According to the results of off-site or on-site inspections and in conjunction with compliance with Foreign Exchange Regulations, the SAFE and its branches divide enterprises into categories A, B, and C.

Pursuant to the Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment (《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》), which was issued on 19 November 2012, came into effect on 17 December 2012, and was subsequently amended on 4 May 2015, the opening of various special purpose foreign exchange accounts (e.g. pre-establishment expenses account, foreign exchange capital account and guarantee account) no longer requires the approval of the SAFE. Furthermore, multiple capital accounts for the same entity may be opened in different provinces, and reinvestment of RMB proceeds by foreign investors in the PRC no longer requires the SAFE's approval.

Pursuant to the Circular on Printing and Distributing "the Provisions on Foreign Exchange Administration over Domestic Direct Investment by Foreign Investors" and the Supporting Documents (《國家外匯管理局關於印發〈外國投資者境內直接投資外匯管理規定〉及配套文件的通知》), which was promulgated on 11 May 2013, became effective on 13 May 2013, and was subsequently amended on 10 October 2018, institutions and individuals shall register with the SAFE and/or its branches for their direct investment in the PRC. Banks shall process foreign exchange business relating to the direct investment in the PRC based on the registration information provided by the SAFE and its branches.

According to the Notice of the State Administration of Foreign Exchange on Reforming the Management Mode of Foreign Exchange Capital Settlement of Foreign Invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) promulgated on 30 March 2015, which came into effect on 1 June 2015, and the Circular on Reforming and Regulating Policies on the Management of the Settlement of Foreign Exchange of Capital Accounts (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》), which was promulgated and came into effect on 9 June 2016, foreign-invested enterprises can conduct the willingness settlement of foreign exchange capital, which means the settlement of foreign exchange capital in the capital accounts of foreign-invested enterprises that have been subject to the confirmation of cash capital contribution at foreign exchange authorities (or the entry registration of cash contribution at commercial banks) may be handled at banks based on the enterprises' actual requirements for business operation. The proportion of willingness settlement of foreign exchange capital of foreign-invested enterprises is temporarily determined as 100%. The SAFE may, based on the international balance of payments, adjust the aforesaid proportion at appropriate times. Moreover, the capital funds of foreign-invested enterprises and the RMB funds obtained from the settlement thereof may not be used for the following purposes: (a) directly or indirectly, used for the expenditures beyond the business scope of the enterprises or prohibited by the laws and regulations of the state; (b) directly or indirectly used for investment in securities or financial schemes other than bank guaranteed products unless otherwise provided by relevant laws and regulations; (c) used for granting loans to non-connected enterprises, unless otherwise permitted by its business scope; and (d) used for the construction or purchase of real estate that is not for self-use (except for the real estate enterprises).

According to the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通

知》), which was promulgated by the SAFE and came into effect on 4 July 2014, an overseas special purpose company directly established or indirectly controlled by a domestic resident for investment and financing purposes shall register with the local branch of the SAFE before making assets or equity contribution to the foreign special purpose company. After the initial registration, where there is any change in the basic information of an overseas special-purpose company such as its domestic resident individual shareholder, name, or term of operation, or where a significant matter occurs, such as a capital increase/decrease or equity transfer/replacement, a combination, or a division, the foreign exchange modification registration procedure for foreign investment shall be undergone with the foreign exchange authority in a timely manner.

Pursuant to the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》) ("**Circular 13**"), which was promulgated on 13 February 2015 and came into effect from 1 June 2015, the foreign exchange banks registration under domestic direct investment and foreign exchange registration under overseas direct investment are directly reviewed and handled by banks in accordance with Circular 13. The SAFE and its branches shall perform indirect regulation over the direct investment foreign exchange registration through banks.

Regulations concerning taxation

Enterprise Income Tax

Pursuant to the EIT Law, domestic enterprises and foreign-invested enterprises apply the same corporate income tax law and the same corporate income tax rate (i.e., the tax rate is 25%). High-tech enterprises to which the State needs to give key support are given the reduced enterprise income tax rate of 15%.

Pursuant to the Administrative Measures for Accreditation of High-tech Enterprises (《高新技術企業認定管理辦法》) effected on 1 January 2008 and amended on 29 January 2016, the certificate of a high-tech enterprise is valid for three years. An enterprise shall, after being accredited as a high-tech enterprise, fill out and submit the statements on annual conditions concerning the intellectual property rights, scientific and technical personnel, expenses on research and development and operating income for the previous year on the "website for the administration of accreditation of high-tech enterprises" (高新技術企業認定管理工作網). Besides, If a high-tech enterprise is renamed or in the event of any major change relating to the certification conditions (such as division, combination, restructuring and business operations, among others), the enterprise shall report to the certification authority within three months. If the certification conditions are met upon examination by the certification authority, the qualification of the enterprise as a high-tech enterprise shall remain unchanged. If the enterprise is renamed, the certificate shall be reissued and the number and validity period thereof shall remain unchanged; or if the certification conditions are not met, the enterprise shall be disqualified as a high-tech enterprise from the year when it is renamed or any condition changes.

Pursuant to the Arrangements between the Mainland China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed on 21 August 2006 and came into force on 1 January 2007, and the Notice of the State Administration of Taxation on the Issuance of the Dividend Rate of the Agreement (《國家

稅務總局關於下發協定股息稅率情況一覽表的通知》), which was promulgated by the SAT on 29 January 2008, when an enterprise in China distributes dividends to Hong Kong residents who are eligible for receiving such dividends, the Hong Kong residents, if holding more than 25% equity interest in such enterprise of China, are generally subject to a tax rate of 5% of the total dividends received. Furthermore, the SAT issued the Notice of the State Administration of Taxation on Issues Regarding the Implementation of Dividend Provisions in Tax Treaties (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) on 20 February 2009, which requires the non-resident taxpayer or the withholding agent to provide a host of documentary evidencing that the recipient of the dividends meets the relevant requirements for enjoying a lower withholding tax rate under a tax treaty, and empowers the competent tax authorities with the discretion to adjust the preferential tax rate to which an offshore entity would otherwise be eligible if the main purpose of such offshore arrangement is to obtain a preferential tax treatment. According to the EIT Law and the Measures for the Implementation of Special Tax Adjustments (for Trial Implementation) (《特別納稅調整實施辦法(試行)》) effective from 1 January 2008, transactions between the enterprise and its related parties are subject to the principle of independent transactions. If the company fails to comply with this principle and the taxable income is reduced, the tax authorities have the right to make reasonable adjustments.

According to the Implementation Regulations of the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》), which came into effect on 1 January 2008 and was amended on 23 April 2019, transactions between related parties may be audited or reviewed by the tax authorities within 10 years of the taxable year. If the tax authorities determine that the connected transaction is not conducted in accordance with the principle of independent transactions, the taxable income can be adjusted by the pricing adjustment and imposing additional taxes on the relevant enterprises and late payment fee may be required, which is calculated by the People's Bank of China's benchmark interest rate for RMB loans announced in the taxable year plus a five percentage point. Taxpayers may submit relevant information (including applicable contemporaneous information) to the relevant tax authorities to apply for a five-percent point tax exemption in accordance with the EIT Law.

The EIT Law further stipulates that an enterprise submitting an annual income tax return to the tax authorities must be accompanied by a statement of the annual business transaction with the related party. If the tax authorities conduct an investigation into a connected transaction, the enterprise and its related parties must provide relevant data to the tax authorities.

Pursuant to the Notice on Increasing the Ratio of the Additional Deduction of Research and Development Expenses (《關於提高研究開發費用稅前加計扣除比例的通知》), which was promulgated by the MOF, the SAT and the Ministry of Science and Technology of the Peoples Republic of China on 20 September 2018 and became effective on the same day, from 1 January 2018 to 31 December 2020 if research and development expenses already incurred by an enterprise have not been included in the gains and losses as intangible assets, an additional 75% of the amount of research and development expenses already incurred during the year shall be deducted from the amount of taxable income in the same year. If intangible assets have been formed, they shall be amortised at 175% of the cost of the intangible assets during the same period.

Value-added tax

Pursuant to the Interim Regulations on Value-Added Tax of the PRC (《中華人民共和國增值稅暫行條例》) promulgated by the State Council on 13 December 1993, amended on 5 November 2008, 6 February 2016 and 19 November 2017, and the Implementation Rules of the PRC Interim Regulations on Value-Added Tax (《中華人民共和國增值稅暫行條例實施細則》) promulgated by the MOF on 25 December 1993, amended on 15 December 2008 and 28 October 2011, respectively, entities or individuals that sell goods or labour services of processing, repair or replacement, sell services, intangible assets, or immovables, or import goods within the territory of the PRC are taxpayers of value-added tax, and shall pay value-added tax and unless stated otherwise, the tax rate for value-added tax payers who are selling goods, labour services, or tangible movable property leasing services or importing goods shall be 17%.

In November 2011, the MOF and the SAT promulgated the Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax (《營業稅改徵增值稅試點方案》). Since 1 January 2012, the PRC government has been gradually implementing a pilot program in certain provinces and municipalities, to levy a value-added tax at the rate of 11% or 6% on revenue generated from certain kinds of services in lieu of the 5% business tax. According to the Notice Regarding the Nationwide Implementation of B2V Transformation Pilot Program in respect of Transportation and Certain Modern Service Industries (《關於在全國開展交通運輸業和部分現代服務業營業稅改徵增值稅試點稅收政策的通知》) jointly issued by the MOF and SAT and implemented from 1 August 2013, such policy was implemented nationwide. On 12 December 2013, the MOF and the SAT released the Circular on the Inclusion of the Railway Transport and Postal Service Industries into the Pilot Collection of Value-Added Tax in Lieu of Business Tax (《關於將鐵路運輸和郵政業納入營業稅改徵增值稅試點的通知》) and its appendices, which further expanded the scope of taxable services for value-added tax. On 23 March 2016, the MOF and the SAT released the Circular on the Nationwide Implementation of Transformation Pilot Program of Value-Added Tax in Lieu of Business Tax (《財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知》) and its appendices, according to which the pilot program of value-added tax in lieu of business tax is implemented nationwide.

According to the Circular of the MOF and the State Administration of Taxation of the PRC on Adjusting Value-added Tax Rates (《財政部、稅務總局關於調整增值稅稅率的通知》) issued on 4 April 2018 and implemented on 1 May 2018, where a tax payer engages in a taxable sales activity for the value-added tax purpose or imports goods, the previous applicable 17% and 11% tax rates are adjusted to be 16% and 10%, respectively.

Regulations concerning employment and social security

The employment contract law

Pursuant to the Labour Law of the PRC (《中華人民共和國勞動法》), promulgated on 5 July 1994 and implemented on 1 January 1995, subsequently amended on 27 August 2009 and 29 December 2018, the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), which was promulgated on 29 June 2007 and came into effect on 1 January 2008, amended on 28 December 2012 and became effective on 1 July 2013 and the Implementation Regulations of the Labour Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》), which was promulgated and became effective on 18 September 2008, the relationship between employers and workers is governed by such regulations; the employer shall educate labourers in labour safety and sanitation, and provide labourers with labour safety and sanitation conditions; a written labour contract shall be executed in the establishment of an employment relationship between the employer and labourers; the employer shall pay labourers wages no lower than local standards on minimum wages.

Social insurance and housing provident fund

According to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), which was promulgated on 28 October 2010 and became effective on 1 July 2011, subsequently amended on 29 December 2018, employers and/or employees (depending on the type of specific social insurance) shall register with the competent authority and pay a number of social insurance premiums, including basic pension insurance, unemployment insurance, basic medical insurance, work injury insurance, and maternity insurance. Employers who fail to promptly contribute social security premiums in full amount shall be ordered by the social security premium collection agency to make or supplement contributions within a stipulated period, and shall be subject to a late payment fine computed from the due date at the rate of 0.05% per day; where payment is not made within the stipulated period, the relevant administrative authorities shall impose a fine ranging from one to three times the amount of the amount in arrears.

Pursuant to the Regulations on the Administration of Housing Provident Fund (《住房公積金管理條例》), which was promulgated and effective on 3 April 1999 and subsequently amended on 24 March 2002 and 24 March 2019, employers shall go to the housing accumulation fund management centre to register the housing provident fund deposit, and deposit the housing provident fund for all employees on schedule. If the employer fails to pay or pay less than the housing provident fund within the time limit, the housing accumulation fund management centre shall order it to pay within a time limit. If it fails to deposit the fund within the time limit, the centre may apply to the people's court for enforcement.

Regulations concerning intellectual property

Trademark

According to the Trademark Law of the PRC (《中華人民共和國商標法》) promulgated on 23 August 1982 and amended on 22 February 1993, 27 October 2001, 30 August 2013 and 23 April 2019 respectively, registered trademarks are trademarks approved to be registered by the Trademark Office, including goods trademarks, service trademarks, collective marks, and certification marks. A trademark registrant shall have the right to exclusively use the registered trademark, which is protected by law. Any natural person, legal person, or other organisation needing to acquire the right to exclusively use a trademark on the goods or services thereof in the course of business operations shall apply to the Trademark Office for trademark registration.

Copyright

According to the Copyright Law of the PRC (《中華人民共和國著作權法》) (the "**Copyright Law**"), which came into effect on 1 June 1991 and was amended on 27 October 2001 and 26 February 2010, works of Chinese citizens, legal entities or other organisations, whether published or not, shall enjoy copyright in accordance with the Copyright Law. Works include computer software, works of fine art, drawings of engineering designs and product designs and other graphic works as well as model works. Except as otherwise provided in the Copyright Law, copying, distributing, performing, screening, broadcasting, compiling, or distributing through the information network the work to the public, without the permission of the copyright owner, constitutes an infringement of copyright.

Patent

The Patent Law of the PRC (《中華人民共和國專利法》) was promulgated on 12 March 1984, became effective on 1 April 1985, and was amended on 4 September 1992, 25 August 2000 and 27 December 2008, respectively. According to such law, "invention-creations" means inventions, utility models or designs. An invention or utility model for which a patent is to be granted shall be novel, inventive and practically applicable. Without permission of the patentee, no entity or individual shall exploit the patent.

Internet domain name

The Measures for the Administration of Internet Domain Names (《互聯網域名管理辦法》) was promulgated by the Ministry of Industry and Information Technology (工業和信息化部) on 24 August 2017 and came into force on 1 November 2017. According to this regulation, the domain names used by those engaging in Internet information services shall comply with laws and regulations and the relevant provisions of telecommunications administrations, and no domain name could be used to commit any illegal act.

Regulations concerning products quality

Pursuant to the Certification and Accreditation Regulations of the PRC (《中華人民共和國認證認可條例》) promulgated on 3 September 2003 and amended on 6 February 2016 and the Administrative Regulations for Compulsory Product Certification (《強制性產品認證管理規定》) promulgated on 3 December 2001, which was implemented on 1 May 2002 and amended on 3 July 2009, certain products manufactured or sold in the PRC shall be certified by a qualified certification authority, confirmed to meet the uniform technical specifications specified in the compulsory product certification catalog, and awarded a certification mark. According to the Announcement on Amending the Implementation Rules for Compulsory Certification of Toy Products (《關於修訂玩具產品強制性認證實施規細則的公告》) promulgated on 1 December 2010, the newly revised Compulsory Certification Implementation Rules for Toy Products — Electric Toy Products (《玩具類產品強制性認證實施規則–電玩具類產品》) were formally implemented. According to these announcement and rules, electric toys, video toys and acousto-optic toys, which are designed or intended for children under the age of 14 to play, with at least one function requiring the use of electrical energy and of various materials, should be compulsorily certified.

According to the Product Quality Law of the PRC (《中華人民共和國產品質量法》) promulgated on 22 February 1993, which was subsequently amended on 8 July 2000, 27 August 2009 and 29 December 2018, respectively, "Product" referred to in this law means a product which is processed or manufactured for the purpose of sale. A producer shall be liable for compensation if his defective product causes damage to human life or property other than the defective product itself. A producer shall not be liable for compensation if he can prove the existence of any of the following circumstances: (a) the product has not been put in circulation; (b) the defect causing the damage did not exist at the time when the product was put in circulation; or (c) the science and technology at the time the product was put in circulation was at a level incapable of detecting the defect.

Pursuant to the General Principles of the Civil Law of the PRC (《中華人民共和國民法通則》) promulgated on 12 April 1986 and amended on 27 August 2009, both manufacturers and sellers shall be jointly responsible for the property damage or personal injury caused by the relevant defective products.

Pursuant to the Tort Liability Law of the PRC (《中華人民共和國侵權責任法》) promulgated on 26 December 2009 and became effective on 1 July 2010, manufacturers shall assume tort liability where the defects in relevant products cause damage to others. Sellers shall assume tort liability where the defects in relevant products causing damage to others are attributable to the sellers. The aggrieved party may claim for compensation from the manufacturer or the seller of the relevant product in which the defects have caused damage.

Regulations concerning import and export

According to the Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》) promulgated on 12 May 1994 and implemented on 1 July 1994, which was subsequently amended on 6 April 2004 and 7 November 2016, respectively, the Customs Law of the PRC (《中華人民共和國海關法》) promulgated on 22 January 1987 and became effective on 1 July 1987, and subsequently amended on 8 July 2000, 29 June 2013, 28 December 2013, 7 November 2016 and 4 November 2017, the Regulations on the Administration of Import and Export of Goods of the PRC (《中華人民共和國貨物進出口管理條例》) promulgated on 10 December 2001 and implemented on 1 January 2002, and the Measures for Record Filing and Registration of Foreign Trade Operator (《對外貿易經營者備案登記辦法》) promulgated on 25 June 2004 and amended on 18 August 2016, any foreign trade business operator engaging in the import or export of goods or technology must go through the record filing and registration formalities with the MOFCOM or an authority authorised by the MOFCOM. In case a foreign trade business operator fails to go through the archival filing and registration according to the present measures, the customs shall not handle the formalities for declaration of release for import and export.

According to the Administrative Provisions of the Customs of the PRC on the Registration of Customs Declaration Entities (《中華人民共和國海關報關單位註冊登記管理規定》) promulgated and implemented on 13 March 2014, subsequently amended on 20 December 2017 and 29 May 2018, a consignee or consignor of imported/exported goods shall make customs declaration through its own customs declarers, or entrust it to a customs declaration enterprise which has been registered with the customs for making declaration. Consignees and consignors of imported/exported goods shall go through the registration procedure for customs declaration entities with the local customs offices in accordance with the relevant provisions. After being registered with the customs, a consignee or consignor of imported/exported goods may make its customs declarations at any port within the customs territory of the PRC or a place which calls for concentrated customs operations of supervision and control.

Regulations concerning environmental protection

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

According to the Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》) promulgated on 28 October 2002 and amended on 2 July 2016 and 29 December 2018, and the Rule on Classification for Environmental Impact Assessment of Construction Projects (《建設項目環境影響評價文件分級審批規定》) promulgated on 1 November 2002 and amended on 11 December 2008, the State practices classified management over the appraisals of the environmental impacts of construction projects according to the seriousness of the environmental impacts. If the environmental impacts may be significant, it shall work out a report of environmental impacts so as to include an all-round appraisal of the environmental impacts; if the environment impacts may be gentle, it shall work out a report of environmental impacts so as to include an analysis or special appraisal of the environmental impacts; if environment impacts may be very small so that it is not necessary to conduct an appraisal of the environmental impacts, it shall fill in a registration form of the environmental impacts. The environmental impact assessment documents should be approved by competent administrative department before starting construction.

According to the Rules on the Administration concerning Environmental Protection of Construction Projects (《建設項目環境保護管理條例》) promulgated on 29 November 1998 and amended on 16 July 2017, and the Regulations on Administration concerning the Environmental Protection Acceptance Check on Construction Projects (《建設項目竣工環境保護驗收管理辦法》) promulgated on 27 December 2001 and amended on 22 December 2010, and the Interim Measures for the Acceptance Inspections of Environment Protection Facilities of Construction Projects (《建設項目竣工環境保護驗收暫行辦法》) promulgation on 20 November 2017, where a construction project needs matching environmental protection facilities, those facilities must be designed and constructed and must be operational and in use at the same time as the main parts of the project. The project owner shall, after completion of the construction project for which the environmental impact report or environmental impact statement is prepared, according to standards and procedures prescribed by the environmental protection administrative department of the State Council, conduct acceptance check of the constructed supporting environmental protection facilities. The facilities that have not undergone or fail to pass the acceptance check shall not be put into production or use.

Regulations concerning planning and construction

According to the Land Administration Law of the PRC (《中華人民共和國土地管理法》) promulgated by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) (the "**NPCSC**") on 25 June 1986, implemented on 1 January 1987 and revised on 29 December 1988, 29 August 1998, 29 December 1998, 28 August 2004 and 26 August 2019 (the latest amendment will take effect on 1 January 2020), land owned by the State may be remised or allotted to construction units or individuals in accordance with the law. The people's government at or above the county level shall register and put on record uses of state-owned land used by units or individuals, and issue certificates to certify the land use rights.

According to the Urban and Rural Planning Law of the PRC (《中華人民共和國城鄉規劃法》) promulgated by the NPCSC on 28 October 2007, implemented on 1 January 2008 and revised on 24 April 2015 and 23 April 2019, a construction land planning permit is required for the right to use the state-owned land acquired by assignment and appropriation.

According to the Urban and Rural Planning Law of the PRC (《中華人民共和國城鄉規劃法》), to build any structure, fixture, road, pipeline or other engineering project within a city or town planning area, the construction entity or individual shall apply to the competent department of urban and rural planning under the people's government of the city or county or the town people's government specified by the people's government of the province, autonomous region or municipality directly under the Central Government for a planning permit on construction project.

According to the Construction Law of the PRC (《中華人民共和國建築法》) promulgated by the NPCSC on 1 November 1997, implemented on 1 March 1998 and revised on 22 April 2011 and 23 April 2019, construction units shall, in accordance with the relevant provisions of the State, apply to the competent construction administrative departments under the prefecture-county governments or above for construction licences, except for small projects below the threshold value set by the competent construction administrative department under the State Council.

According to the Rules on the Administration of Construction Quality (《建設工程質量管理條例》) promulgated by the State Council on 30 January 2000 and amended on 7 October 2017 and 23 April 2019, and the Administrative Measures for Recording of the Inspection and Acceptance on Construction Completion of Buildings and Municipal Infrastructures (《房屋建築和市政基礎設施工程竣工驗收備案管理辦法》) promulgated and implemented by the former Ministry of Construction on 4 April 2000 and amended on 19 October 2009, construction project shall not be delivered for use unless it has passed the completion-based check. The construction entity should file a record to a competent construction administrative department of the people's government at or above the county level of the place where the project is located within 15 days from the day when the construction project passes the acceptance check.

Regulations concerning the mergers and acquisitions of domestic enterprises by foreign investors in China

According to the M&A Rules jointly issued by the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產管理監督委員會), the SAT, the CSRC, the former State Administration for Industry and Commerce (原國家工商行政管理總局) and the SAFE on 8 August 2006, implemented on 8 September 2006 and amended on 22 June 2009, where a domestic company, enterprise or natural person intends to acquire its/his/her related domestic company in the name of an offshore company which it/he/she lawfully established or controls, the acquisition shall be subject to the examination and approval of the MOFCOM, and where a domestic company or natural person holds an equity interest in a domestic company through an offshore special purpose company, any overseas listing of that special purpose company shall be subject to approval by the CSRC.

According to the guide Book on the Access Administration of Foreign Investment (《外商投資准入管理指引手冊》) (the 2008 Version) promulgated on 18 December 2008, the M&A Rules do not apply to equity transfers of an established foreign-invested enterprise by the domestic party to foreign parties, regardless of any affiliated relationships among such parties and whether or not the foreign parties are the original shareholders or new investors.

LAWS AND REGULATIONS IN HONG KONG

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.

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 or Schedule 2 product unless the toy or children's product complies with all the applicable requirements contained in any one set of the safety standards specified in Schedules 1 and 2 to the TCPSO. These standards are international standards or standards adopted by major economies. A breach may result in a fine of HK$100,000 and one year's imprisonment on first conviction and a fine of HK$500,000 and two years' imprisonment on subsequent conviction.

According to the Toys and Children's Products Safety (Additional Safety Standards or Requirements) Regulation (Chapter 424C of the Laws of Hong Kong), if a toy or children's product is to be sold locally, then it is required to bear the "identification marking", which should carry the name, trade or other identification mark and the local address of the manufacturer, importer or supplier in English, Chinese or both languages. Further, although there is no specification on the size of the letters of the identification marking and safety warning or caution, the identification marking and the safety warning or caution must be clearly legible.

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

The TMO and its subsidiary legislation, the Trade Marks Rules (Chapter 559A 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.

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 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 he 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.

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, behaviour, 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.

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 section 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 of HK$100,000 and to imprisonment for two years.

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

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

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

The mandatory provident fund scheme (the "**MPF Scheme**") is the contribution retirement scheme managed by authorised independent trustees. The MPFO provides that an employer shall participate in an MPF Scheme and make contributions for its employees aged between 18 and 65. Under the MPF Scheme, an employee and its employee are both required to contribute 5% of the employee's monthly relevant income as mandatory contribution for and in respect of the employee, subject to the minimum and maximum relevant income levels for contribution purposes. For a monthly-paid employee, the minimum and maximum relevant income levels are HK$7,100 and HK$30,000, respectively.

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

The MWO provides for a prescribed minimum hourly wage rate and such rate is at HK$37.5 per hour for every employee employed under the Employment Ordinance (Chapter 57 of the Laws of Hong Kong) effective from 1 May 2019. Any provision of the employment contract which purports to extinguish or reduce the right, benefit or protection conferred on the employee by the MWO is void.

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

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

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

COMPLIANCE WITH LAWS AND REGULATIONS

Save as otherwise disclosed in the sub-paragraph headed "Non-compliance incidents" under the paragraph headed "Legal proceedings and compliance" in the section headed "Business" of this prospectus, our Directors confirm that our Group had been in compliance with all relevant laws and regulations in the PRC and Hong Kong pertaining to our business operations in all material respects during the Track Record Period and up to the Latest Practicable Date.

OVERVIEW

We principally design, develop, manufacture and sell high quality smart toy vehicles, smart interactive toys and traditional toys.

Our history traces back to June 2009, when Mr. Yu, the chairman of our Board, our executive Director and one of our Controlling Shareholders and Pre-IPO Investors, together with Ms. Chen, his spouse, established Shantou Jinjun in Chenghai, Shantou, the toy capital of China, which operated as a toy manufacturing factory and also engaged in sale of toys. In July 2011, Mr. Yu, Ms. Chen and Mr. Pui established Kidztech HK and we began to export toys to Europe and America.

In March 2015, Mr. Yu acquired 51% interest in Kidztech Intelligent, which was also principally engaged in toy manufacturing, from Independent Third Parties to further enhance our production capacity. Subsequently in June 2015, we consolidated the business of Shantou Jinjun and Kidztech Intelligent with a view to streamlining our Group's business by transferring the toy manufacturing and sale business of Shantou Jinjun to Kidztech Intelligent. Since then, Kidztech Intelligent has become our Group's principal operating entity in the PRC, and Shantou Jinjun has ceased its toy manufacturing and sale business. In September 2015, Kidztech Intelligent acquired Kidztech HK from Mr. Yu, Ms. Chen and Mr. Pui.

In November 2016, Kidztech Intelligent was listed on the NEEQ and it was de-listed on the NEEQ in August 2019.

MILESTONES OF DEVELOPMENT

The following is a summary of our business development milestones:

Year	Event
2009	Shantou Jinjun was established in the PRC as a toy manufacturing arm of our Group
2009	We obtained our first IP licence, a brand of trucks and sport utility vehicles
2011	Kidztech HK was incorporated in Hong Kong focusing on research and development, marketing and export sale of toys
2015	Mr. Yu acquired 51% equity interest in Kidztech Intelligent
2016	Kidztech Intelligent listed its shares on the NEEQ in November
	Kidztech Intelligent was recognised as a Shantou Municipal Enterprise Technology Centre (汕頭市市級企業技術中心) and a New High-Tech Enterprise (高新技術企業)
2017	Kidztech Intelligent was recognised as a Shantou Municipal Engineering Research Centre (汕頭市工程技術研究中心)

Year	Event
2017 and 2018	We were named as one of The World's Leading Licensees by License Global magazine in August 2017 and in August 2018
2018	We were awarded Best Remote Controlled Toys Manufacturer — Hong Kong by APAC Insider Magazine
2019	Kidztech Intelligent delisted its shares on the NEEQ in August

OUR OPERATING COMPANIES SINCE OUR ESTABLISHMENT

The principal business activities of our Group members that made a material contribution to our operating results are shown as below:

Company	Principal business activities	Place of establishment/ incorporation	Registered share capital/ issued share capital
Kidztech Intelligent	Manufacturing and sale of toys	The PRC	RMB78,000,000
Kidztech HK	Sale, research and development of toys and marketing channel	Hong Kong	HK$500,000
Kidztech Internet	Sale of toys through e-commerce channels	The PRC	RMB5,000,000
Kidztech IoT	Research, development and design of smart hardware	The PRC	RMB5,000,000

Kidztech Intelligent

Kidztech Intelligent was established in the PRC as a limited liability company on 30 May 2001 by Independent Third Parties with an initial registered capital of RMB500,000. It principally manufactures and sells toys in the PRC. Kidztech Intelligent underwent a series of equity transfer and capital increase. Immediately before the acquisition of Kidztech Intelligent by Mr. Yu as described below, the registered capital of Kidztech Intelligent was RMB12,000,000, which was held by Mr. Chen Ximu (陳喜木) and Ms. Xu Minghua (許明華), his spouse, each an Independent Third Party, as to 75% and 25%, respectively. To the best knowledge of our Directors, after Mr. Chen Ximu (陳喜木) passed away in September 2014, Ms. Xu Minghua (許明華) and the successors of Mr. Chen Ximu (陳喜木) sought to dispose of Kidztech Intelligent, having considered that they did not have the skill sets and expertise to manage its then toy manufacturing and sale business.

Mr. Yu considered to expand the manufacturing capacity of our Group's business by acquiring Kidztech Intelligent, after taking into account the land use rights and production plant held by, as well as the then customer base and employees of, Kidztech Intelligent.

On 19 March 2015, Mr. Yu and Mr. Yu Jianbin (余建彬) ("**Mr. JB Yu**"), an Independent Third Party who was a passive investor and had not been involved in the day-to-day management of our business, acquired 51% and 49% equity interest in Kidztech Intelligent, at a consideration of RMB6,120,000 and RMB5,880,000, respectively, from Ms. Xu Minghua (許明華) and the successors of Mr. Chen Ximu (陳喜木), which was determined with reference to the then registered capital of RMB12,000,000 of Kidztech Intelligent.

Upon completion of the acquisition of Kidztech Intelligent by Mr. Yu and Mr. JB Yu, we underwent a business reorganisation to consolidate the business, production facilities, related fixed assets and trademarks of Shantou Jinjun and Kidztech Intelligent with the aim of improving the production and management efficiency and simplifying our operational and legal structure. In addition, after taking into account, among others, (i) both Shantou Jinjun and Kidztech Intelligent were engaged in toy manufacturing and sale business; and (ii) the close proximity of the two production plants, consolidating the businesses of Shantou Jinjun and Kidztech Intelligent into one operating entity would simplify our group structure for the preparation of potential listing on the NEEQ or stock exchange in the PRC. Please refer to the paragraph headed "Listing and delisting of Kidztech Intelligent on the NEEQ and proposed listing on ChiNext" in this section below. Kidztech Intelligent is used as the surviving and operating subsidiary because it possesses its own production plant which is located on a piece of self-owned land.

Shantou Jinjun had ceased its toy manufacturing and sale business after the business consolidation in 2015 and was deregistered on 17 January 2019. As advised by our PRC Legal Advisers, Shantou Jinjun's business operations had complied with all applicable laws, rules and regulations of the PRC in all material respects prior to its deregistration on 17 January 2019.

On 7 September 2015, Kidztech Intelligent increased its registered capital from RMB12,000,000 to RMB65,000,000, which (i) Mr. Yu subscribed for and injected RMB23,780,000 which contributed to the registered capital of Kidztech Intelligent; and (ii) Mr. Yu Junhao (余俊浩), Mr. Cai, Shenzhen Beifu Technology Co., Ltd.* (深圳貝富科技有限公司) ("**Beifu Tech**"), Shenzhen Qianhai Zhibenhui Asset Management Co., Ltd.* (深圳前海智本匯資產管理有限公司) ("**Qianhai Zhibenhui**") and Shenzhen Qianhai Ruilanhui Equity Investment Fund Management Co., Ltd.* (深圳前海睿藍匯股權投資基金管理有限公司) ("**Qianhai Ruilanhui**") subscribed for and injected an aggregate of RMB58,440,000, of which (a) RMB29,220,000 contributed to the registered capital; and (b) RMB29,220,000 was accounted for as share premium or capital reserve. On the same date, Mr. JB Yu transferred his 6% equity interest in Kidztech Intelligent to Qianhai Huangcheng at a consideration of RMB3,900,000.

The equity ownership structure of Kidztech Intelligent after completion of the equity transfer and the capital injection is set out as follows (all premium was accounted for as capital reserve fund of Kidztech Intelligent):

Name of equity owners	Contribution as share premium	Contribution to the registered capital	Approximate equity interest after completion of the capital injection and the equity transfer
	(RMB)	*(RMB)*	
Mr. Yu	Nil	29,900,000	46.00%
Mr. Yu Junhao (余俊浩)	13,000,000	13,000,000	20.00%
Mr. Cai *Note 1*	6,500,000	6,500,000	10.00%
Beifu Tech *Note 2*	3,900,000	3,900,000	6.00%
Qianhai Huangcheng *Note 3*	Nil	3,900,000	6.00%
Qianhai Zhibenhui *Note 4*	3,220,000	3,220,000	4.95%
Qianhai Ruilanhui *Note 5*	2,600,000	2,600,000	4.00%
Mr. JB Yu	Nil	1,980,000	3.05%
Total	**29,220,000**	**65,000,000**	**100%**

Notes:

1. *Mr. Cai is the spouse of Ms. Zheng Jingyun, our non-executive Director.*

2. *Beifu Tech is a company established in the PRC, being an investment holding vehicle wholly owned by Mr. Pui.*

3. *Qianhai Huangcheng is a company established in the PRC, being an investment holding vehicle held by Mr. Yu and Ms. Chen as to 50% each.*

4. *Qianhai Zhibenhui is a company established in the PRC, being an investment holding vehicle held by Mr. Chen Hongkai (陳鴻凱), Ms. Chen's brother, and Mr. JB Yu, as to 70% and 30%, respectively.*

5. *Qianhai Ruilanhui is a company established in the PRC, being an investment holding vehicle held by Mr. Huang Yu (黃宇) and Ms. Ma Liang'e (馬良娥), each an Independent Third Party and who are spouses, as to 70% and 30%, respectively.*

Please refer to the paragraphs headed "Listing and delisting of Kidztech Intelligent on the NEEQ and proposed listing on ChiNext" and "Reorganisation" in this section below for the subsequent shareholding changes of Kidztech Intelligent.

Kidztech HK

Kidztech HK was incorporated in Hong Kong with limited liability on 18 July 2011. It is the export sale, research and development of toys and marketing arm of our Group.

On the date of its incorporation, Kidztech HK allotted and issued 80,000 fully-paid founder members' shares to Mr. Yu as to 48,000 shares, Ms. Chen as to 28,000 shares and Mr. Pui as to 4,000 shares at HK$1 per share. On 8 November 2012, 252,000, 147,000 and 21,000 fully-paid new shares of Kidztech HK were allotted and issued to Mr. Yu, Ms. Chen and Mr. Pui, respectively.

In September 2015, Mr. Yu, Ms. Chen and Mr. Pui transferred 60%, 35% and 5% of the total issued shares of Kidztech HK they held respectively, at an aggregate consideration of RMB18,000,000, to Kidztech Intelligent, which was determined with reference to the valuation of Kidztech HK as at 31 August 2015 and settled by Kidztech Intelligent's own funds. Upon completion of the share transfers, Kidztech HK became a wholly-owned subsidiary of Kidztech Intelligent.

Kidztech Internet

Kidztech Internet was established in the PRC on 23 September 2015 with an initial registered capital of RMB5,000,000 and its entire equity interest is held by Kidztech Intelligent since its establishment. It is the e-commerce sales channel of our Group.

Kidztech IoT

Kidztech IoT was established in the PRC on 1 April 2016 with an initial registered capital of RMB5,000,000 and its entire equity interest is held by Kidztech Intelligent since its establishment. It principally engages in research, development and design of our smart hardware.

LISTING AND DELISTING OF KIDZTECH INTELLIGENT ON THE NEEQ AND PROPOSED LISTING ON CHINEXT

In contemplation of listing on the NEEQ, on 10 April 2016, Kidztech Intelligent passed a shareholders' resolution approving, among other matters, the conversion of Kidztech Intelligent from a limited liability company into a joint stock company with limited liability. Upon completion of the conversion on 19 May 2016, the share capital of Kidztech Intelligent of RMB65,000,000 was divided into 65,000,000 shares with a nominal value of RMB1 each. On 18 November 2016, the shares of Kidztech Intelligent were listed on the NEEQ.

Share Placement in 2017

On 18 April 2017, each of Shenzhen Derun Kechuang Investment Enterprise (Limited Partnership)* (深圳德潤科創投資企業(有限合伙)) ("**Derun Kechuang**"), Mr. Chen Shi (陳實), Northeast Securities Co., Ltd.* (東北證券股份有限公司) ("**Northeast Securities**"), Ms. Song, Shantou Zhonglian Hengli Investment Partnership Enterprise (Limited Partnership)* (汕頭市中聯恒力投資合夥企業(有限合伙)) ("**Zhonglian Hengli**"), Zhoushan Junyao Investment Management Partnership Enterprise (Limited Partnership) (舟山駿耀投資管理合夥企業(有限合伙)) ("**Zhoushan**

Junyao"), Ms. Cao, Mr. Wu and Tianfeng Securities Co., Ltd.* (天風證券股份有限公司) ("**Tianfeng Securities**") (collectively, the "**2017 Investors**") entered into subscription agreements with Kidztech Intelligent, pursuant to which each of them agreed to subscribe for and Kidztech Intelligent agreed to allot and issue a total of 13,000,000 shares of Kidztech Intelligent at a subscription price of RMB12 per share (the "**2017 Share Placement**"). The consideration was determined after arm's length negotiations taking into account the prospect of our Group's business and financial performance. Upon completion of such subscription, the registered share capital of Kidztech Intelligent was increased from RMB65,000,000 to RMB78,000,000. Each of the 2017 Investors is an Independent Third Party. There are no special rights granted to the 2017 Investors. Other than Ms. Cao and Mr. Wu, being the secretary to the board and financial controller of Kidztech Intelligent respectively, who are restricted from disposing of a certain percentage of shares they held in accordance with the Company Law of the PRC, the 2017 Investors are not subject to any lock-up requirement. The number of shares of Kidztech Intelligent subscribed by each of the 2017 Investors was as follows:

Name of shareholders	Number of shares subscribed	Approximate shareholding upon completion of the subscription	Other relationship with our Group
Derun Kechuang [Note 1]	3,400,000	4.36%	Nil
Mr. Chen Shi (陳實)	3,000,000	3.85%	Nil
Northeast Securities	2,500,000	3.21%	Lead manager of Kidztech Intelligent for its NEEQ listing
Ms. Song	1,500,000	1.92%	Nil
Zhonglian Hengli [Note 2]	1,000,000	1.28%	Nil
Zhoushan Junyao [Note 3]	1,000,000	1.28%	Nil
Ms. Cao	250,000	0.32%	Senior management of our Group
Mr. Wu	250,000	0.32%	Senior management of our Group
Tianfeng Securities	100,000	0.13%	Nil

Notes:

1. *Derun Kechuang is a limited partnership established in the PRC, being a private equity investment fund held by Mr. Chen Songkai (陳松凱), Mr. Xie Weibin (謝偉彬), Mr. Xu, Ms. Li Yina (李亦娜) and Ms. Xie Dongsun (謝冬笋) (as limited partners) and Qianhai Derun Asset Management (Shenzhen) Co., Ltd.* (前海德潤資本管理(深圳)有限公司) (as general partner) ("**Derun AM**") as to approximately 51.41%, 29.38%, 8.79%, 5.85%, 4.39% and 0.18%, respectively.*

2. *Zhonglian Hengli is a limited partnership established in the PRC as a private equity investment fund held by Mr. Wang Jin (王瑾) and Mr. Weng Shaofeng (翁少鋒) (as limited partners) and Guangdong Zhonglian Hangli Asset Management Co., Ltd.* (廣東中聯恒力資產管理有限公司) (as general partner and fund manager) ("**Hengli AM**") as to 70%, 29% and 1%, respectively, at the time of the 2017 Share Placement.*

3. *Zhoushan Junyao is a limited partnership established in the PRC held by Mr. Zheng Zigang (張子鋼) and Ms. Zhang Jin (張瑾), who are spouses, as to approximately 91.1% and 8.9%, respectively.*

Proposed listing on ChiNext

In August 2017, Kidztech Intelligent initiated the early phase of preparation for listing on ChiNext by lodging a registration with the Guangdong Administration of the CSRC (中國證監會廣東證監局) in respect of the commencement of the tutoring of Kidztech Intelligent (the "**Tutoring**"). Kidztech Intelligent appointed Northeast Securities in relation to the Tutoring (the "**Tutoring Sponsor**"). The Tutoring is a prerequisite for submission of application to the Guangdong Administration of CSRC for the proposed listing on ChiNext.

On 30 September 2019, the Guangdong Administration of CSRC accepted the termination of the Tutoring from Kidztech Intelligent. As at the Latest Practicable Date, Kidztech Intelligent had not submitted the listing application in connection with its proposed listing on ChiNext and our Directors confirm that Kidztech Intelligent will not proceed with the proposed listing plan on ChiNext.

Our Directors confirm, to the best of their knowledge and belief, that (i) there were no material adverse findings during the Tutoring; and (ii) there are no further matters in relation to the Tutoring which need to be brought to the attention of the regulators and investors in Hong Kong.

Reasons for terminating the Tutoring

Our Directors believed that terminating the Tutoring would be in the interest of our Group's business development strategies, and that it would be beneficial to us and our Shareholders as a whole to terminate the proposed A-share listing process on ChiNext and to pursue a listing on the Stock Exchange. Our Directors believed that, as compared to the ChiNext market, the Main Board of the Stock Exchange in general has a higher market liquidity and would give us a greater access to international and institutional investors and global markets. Furthermore, our Directors considered that the listing timetable for the proposed listing on ChiNext could be uncertain, in contrast to a listing on the Stock Exchange.

Based on our Directors' confirmations and the interviews with Northeast Securities, the then lead manager to Kidztech Intelligent of its listing on the NEEQ and the Tutoring Sponsor, the Sole Sponsor concurs that there are no matters which need to be brought to the attention of the regulators and investors in Hong Kong in relation to the Tutoring.

Delisting on the NEEQ

On 8 July 2019, trading of the shares of Kidztech Intelligent was suspended on the NEEQ in preparation for its delisting on the NEEQ. On 28 August 2019, it was delisted on the NEEQ. Immediately before the suspension of trading and the delisting, the shares of Kidztech Intelligent were held by the following shareholders and their respective approximate percentage of shareholding in Kidztech Intelligent was as follows:

Name of shareholders	Number of shares	Approximate shareholding
Mr. Yu	29,901,000	38.33%
Mr. Yu Junhao (余俊浩)	13,000,000	16.67%
Mr. Cai	6,500,000	8.33%
Qianhai Huangcheng *Note 1*	3,900,000	5.00%
Beifu Tech *Note 2*	3,900,000	5.00%
Derun Kechuang *Note 3*	3,400,000	4.36%
Qianhai Zhibenhui *Note 4*	3,220,000	4.13%
Mr. Chen Shi (陳實)	3,000,000	3.84%
Qianhai Ruilanhui *Note 5*	2,600,000	3.33%
Northeast Securities	2,496,000	3.20%
Mr. JB Yu	1,980,000	2.54%
Ms. Song	1,500,000	1.92%
Zhonglian Hengli *Note 6*	1,000,000	1.28%
Zhoushan Junyao *Note 7*	1,000,000	1.28%
Ms. Cao	250,000	0.32%
Mr. Wu	250,000	0.32%
Tianfeng Securities	97,000	0.12%
Mr. Chen Dongliang (陳東亮)	5,000	0.01%
Mr. Chen Muqiang (陳木強)	1,000	0.001%
Total	**78,000,000**	**100%**

Notes:

1. *Qianhai Huangcheng is a company established in the PRC, being an investment holding vehicle held by Mr. Yu and Ms. Chen as to 50% each.*

2. *Beifu Tech is a company established in the PRC, being an investment holding vehicle wholly owned by Mr. Pui.*

3. *Derun Kechuang is a limited partnership established in the PRC, being a private equity investment fund held by Mr. Huang Wenwei (黃文偉), Mr. Xie Weibin (謝偉彬), Mr. Xu, Ms. Li Yina (李亦娜) and Ms. Xie Dongsun (謝冬笋) (as limited partners) and Derun AM as to approximately 51.41%, 29.38%, 8.79%, 5.85%, 4.39% and 0.18%, respectively.*

4. *Qianhai Zhibenhui is a company established in the PRC, being an investment holding vehicle held by Mr. Chen Hongkai (陳鴻凱), Ms. Chen's brother, and Mr. JB Yu as to 70% and 30%, respectively.*

5. *Qianhai Ruilanhui is a company established in the PRC, being an investment holding vehicle held by Mr. Huang Yu (黄宇) and Ms. Ma Liang'e (馬良娥), each an Independent Third Party and who are spouses, as to 70% and 30%, respectively.*

6. *Zhonglian Hengli is limited partnership established in the PRC as a private equity investment fund held by Mr. Wang Jin (王瑾) and Mr. Weng Shaofeng (翁少鋒) (as limited partners) and Hengli AM as to 70%, 29% and 1%, respectively.*

7. *Zhoushan Junyao is a limited partnership established in the PRC and held by Mr. Zheng Zigang (張子鋼) and Ms. Zhang Jin (張瑾), who are spouses, as to approximately 91.1% and 8.9%, respectively.*

ACQUISITION OF SHANTOU YUDILONG DURING THE TRACK RECORD PERIOD AND SUBSEQUENT DISPOSAL AFTER THE TRACK RECORD PERIOD

Acquisition of Shantou Yudilong in 2017 and 2018

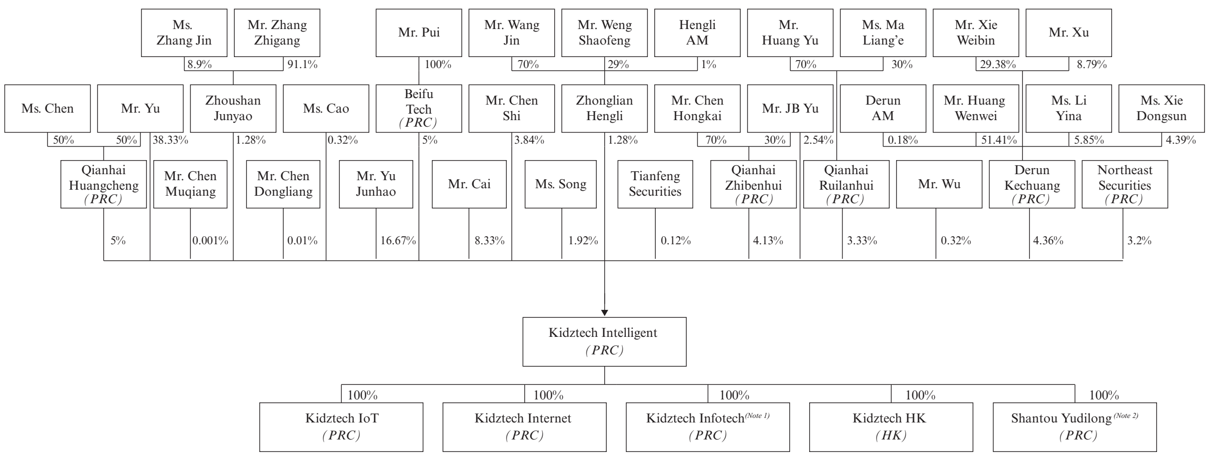
Kidztech Intelligent acquired 80% and the remaining 20% of the entire equity interest of Shantou Yudilong, which owned a piece of land in Chenghai, Shantou (the "**Yudilong Land**"), from Independent Third Parties in December 2017 and August 2018 at a consideration of RMB22,800,000 and RMB5,700,000, respectively, which was determined after arm's length negotiations with reference to the market value of comparable properties of the Yudilong Land in nearby locations as valued by an independent valuer and settled by Kidztech Intelligent's own funds. The Yudilong Land was leased to an Independent Third Party, who has constructed a temporary structure thereon for temporary use.

Disposal of Shantou Yudilong in 2019

At the time of the acquisition of Shantou Yudilong, our Directors considered that the Yudilong Land was not acquired for short-term expansion but for possible construction of a new production plant in the medium-to-long term future expansion and development plan taking into account the fact that the Yudilong Land is located relatively far from our existing Production Plants and we prioritised our expansion plan by developing the New Production Plant adjacent to the Production Plant I. Subsequently, we have taken into consideration that (i) the current expansion plan through the construction of the New Production Plant which is adjacent to the Production Plant I, out of which we expect that the increased production capacity would satisfy the demands in the near future and as a result, there is no immediate need and concrete plan for constructing another new production plant on the Yudilong Land in the short-term; (ii) we were able to realise the value of the Yudilong Land and recognise a gain from disposal of Shantou Yudilong in view of the favourable real estate market in the area where the Yudilong Land is located; and (iii) disposal of Shantou Yudilong and realisation of the value of the Yudilong Land will allow us to better manage working capital and internal resources so that we will be focusing on our current expansion plan at the New Production Plant after Listing as further discussed under the section headed "Future plans and use of proceeds" in this prospectus, Kidztech Intelligent disposed of the entire equity interest of Shantou Yudilong to Independent Third Parties in August 2019 at an aggregate consideration of RMB33,000,000 which was determined after arm's length negotiations with reference to the market value of comparable properties of the Yudilong Land in nearby locations. Further details of the disposal of Shantou Yudilong, including the Yudilong Land, are set out in the sub-paragraph headed "Other gains/(losses) — net" under the paragraph headed "Description of selected items in combined statements of comprehensive income and discussion of results of operation" under the section headed "Financial information" in this prospectus.

REORGANISATION

The following diagram illustrates the shareholding structure of our Group before our Reorganisation:



Notes:

1. *During the year ended 31 December 2017, Kidztech Intelligent entered into an arrangement with Shantou Jinyuan Asset Operation Company Limited* (汕頭市金源資產經營有限公司), a state-owned enterprise wholly-owned by the Finance Bureau of Shantou (the "**Shantou Jinyuan**"), being an Independent Third Party, whereby Kidztech Intelligent and the Shantou Jinyuan were entitled to inject registered equity capital of RMB71,000,000 and RMB25,000,000, respectively into Kidztech Infotech, representing respective equity interest of 73.96% and 26.04%. In January 2019, pursuant to the local government policy, Shantou Jinyuan transferred the equity interest in Kidztech Infotech it held to Shantou Tourongzi Group Co., Ltd.* (汕頭市投融資集團公司) ("**Shantou Tourongzi**", together with Shantou Jinyuan, each a "**State-owned Company**"), a company wholly owned by the Shantou Municipal Government, which assumed all contractual rights and obligations of Shantou Jinyuan under the arrangement. Under the arrangement, Kidztech Intelligent was required to repay the equity investment of RMB25,000,000 to the State-owned Company on 30 March 2020 together with an aggregate fixed return of RMB1,875,000. The State-owned Company is not entitled to any share of profit or residual assets of Kidztech Infotech and accordingly, our Directors treated Kidztech Infotech as a 100% owned subsidiary of our Group. The RMB25,000,000 capital injection from the State-owned Company was treated as other borrowings of our Group during the Track Record Period.*

2. *Shantou Yudilong was disposed of to Independent Third Parties in August 2019. Please refer to the paragraph headed "Acquisition of Shantou Yudilong during the Track Record Period and subsequent disposal after the Track Record Period" in this section above for details.*

In preparation for Listing and to streamline our corporate structure, we underwent the following Reorganisation:

1. Delisting from the NEEQ

Considering that a listing on the Stock Exchange can raise the brand awareness, enhance the corporate image and strengthen the corporate governance, as well as address the fundraising needs of our Group, on 28 August 2019, Kidztech Intelligent was delisted on the NEEQ. As advised by our PRC Legal Advisers, during the period of quoting on the NEEQ, none of Kidztech Intelligent, its shareholders or its directors was subject to any investigations or disciplinary actions by any regulatory authority, nor had any material breach of the relevant rules governing the NEEQ. As confirmed by our Directors and the Sole Sponsor concurs, there are no matters which need to be brought to the attention of the regulators and investors in Hong Kong in relation to Kidztech Intelligent's listing and delisting on the NEEQ mentioned above.

2. Share transfers among existing shareholders of Kidztech Intelligent

(A) Transfer of shares of Kidztech Intelligent held by corporate shareholders to their members

On 24 September 2019, each of Qianhai Huangcheng, Qianhai Zhibenhui, Qianhai Ruilanhui, Derun Kechuang and Zhonglian Hengli, being corporate shareholders of Kidztech Intelligent, entered into share transfer agreements with each of their respective shareholders, pursuant to which the corporate shareholders transferred the shares of Kidztech Intelligent they held to their shareholders in proportion to their interest held in the corporate shareholders (except as specified in the note below) at a nominal consideration of RMB1, respectively.

	Name of corporate shareholders	Name of shareholders/limited partners of the corporate shareholders (shareholding in corporate shareholder)	Shares of Kidztech Intelligent transferred	Approximate shareholding of Kidztech Intelligent transferred
1.	Qianhai Huangcheng	Mr. Yu (50%)	1,950,000	2.50%
		Ms. Chen (50%)	1,950,000	2.50%
2.	Qianhai Zhibenhui	Mr. Chen Hongkai (陳鴻凱) (70%)	2,254,000	2.89%
		Mr. JB Yu (30%)	966,000	1.24%
3.	Qianhai Ruilanhui	Mr. Huang Yu (黃宇) (70%)	1,820,000	2.33%
		Ms. Ma Liang'e (馬良娥) (30%)	780,000	1.00%
4.	Derun Kechuang *Note*	Mr. Huang Wenwei (黃文偉) (51.41%)	1,751,092	2.24%
		Mr. Xie Weibin (謝偉彬) (29.38%)	1,000,721	1.28%
		Mr. Xu (8.79%)	299,399	0.38%
		Ms. Xie Dongsun (謝冬笋) (4.39%)	149,529	0.26%
		Ms. Li Yina (李亦娜) (5.85%)	199,259	0.19%
5.	Zhonglian Hengli	Mr. Wang Jin (王瑾) (70%)	700,000	0.90%
		Mr. Weng Shaofeng (翁少鋒) (29%)	290,000	0.37%
		Hengli AM (1%)	10,000	0.01%

Note:

The approximate 0.18% interest in Derun Kechuang held by its general partner, Derun AM, was not paid-up. Pursuant to the partnership agreement of Derun Kechuang, distribution should be made in proportion to their paid-up capital contribution; therefore, the shares of Kidztech Intelligent held by it were not transferred to Derun AM but to the five limited partners proportionally.

(B) Acquisition of shares of Kidztech Intelligent by Mr. Yu

Mr. Yu, one of our Controlling Shareholders, acquired shares of Kidztech Intelligent from two securities firms in the PRC, a corporate shareholder and two individual minority shareholders of Kidztech Intelligent who do not wish to participate in Listing, in order to facilitate our Reorganisation and the application for Listing. Details of such acquisitions are as follows:

1. On 24 July 2019, Mr. Yu, as purchaser, entered into a share transfer agreement with Northeast Securities, as vendor, pursuant to which Mr. Yu agreed to purchase the 2,496,000 shares in, representing 3.2% of the total issued shares of, Kidztech Intelligent held by Northeast Securities at a consideration of RMB23,500,000, representing a cost of approximately RMB9.4 per share of Kidztech Intelligent acquired.

2. On 18 July 2019, Mr. Yu, as purchaser, entered into a share transfer agreement with Tianfeng Securities, as vendor, pursuant to which Mr. Yu agreed to purchase the 97,000 shares in, representing approximately 0.12% of the total issued shares of, Kidztech Intelligent held by Tianfeng Securities at a consideration of RMB931,200, representing a cost of RMB9.6 per share of Kidztech Intelligent acquired.

3. On 24 September 2019, Mr. Yu, as purchaser, entered into a share transfer agreement with Zhoushan Junyao, as vendor, pursuant to which Mr. Yu agreed to purchase the 1,000,000 shares in, representing approximately 1.28% of the total issued shares of, Kidztech Intelligent held by Zhoushan Junyao at a consideration of RMB11,450,000, representing a cost of RMB11.45 per share of Kidztech Intelligent acquired.

   Basis of considerations

   To the best knowledge and belief of our Directors, the basis of considerations of the acquisitions from Northeast Securities, Tianfeng Securities and Zhoushan Junyao was determined separately after arm's length negotiation between the parties with reference to (i) the subscription price of RMB12 per share of Kidztech Intelligent paid by Northeast Securities, Tianfeng Securities and Zhoushan Junyao in the 2017 Share Placement; and (ii) the distribution of dividend of RMB1.3 per share of Kidztech Intelligent in May 2019. To the best knowledge of our Directors, (a) Northeast Securities has also taken into account the professional fees received for its role as lead manager of Kidztech Intelligent in the NEEQ listing and the Tutoring Sponsor for Kidztech Intelligent's proposed listing on ChiNext in determining the share price, which could cover its investment loss of approximately RMB1.3 per share of Kidztech Intelligent; (b) the investment loss of RMB1.1 per share of Kidztech Intelligent was not material to Tianfeng Securities as it only held 97,000 shares of Kidztech Intelligent; and (c) Zhoushan Junyao recognised a gain from the disposal of Kidztech Intelligent's shares.

4. On 24 September 2019, Mr. Yu, as purchaser, entered into a share transfer agreement with each of Mr. Chen Dongliang (陳東亮) and Mr. Chen Muqiang (陳木強), each as vendor, pursuant to which Mr. Yu agreed to purchase the 5,000 shares and 1,000 shares in, representing approximately 0.01% and 0.001% of the total issued shares of, Kidztech Intelligent held by Mr. Chen Dongliang (陳東亮) and Mr. Chen Muqiang (陳木強), respectively at a consideration of RMB85,000 and RMB17,000 respectively, representing a cost of RMB17 per share of Kidztech Intelligent acquired.

   Basis of considerations

   To the best knowledge and belief of our Directors, the basis of considerations of the acquisitions from Mr. Chen Dongliang (陳東亮) and Mr. Chen Muqiang (陳木強) was determined separately after arm's length negotiation between the parties with reference to (i) the share price of Kidztech Intelligent paid by Mr. Chen Dongliang (陳東亮) and Mr. Chen Muqiang (陳木強) on the NEEQ (i.e. RMB34 per share); (ii) the share price of Kidztech Intelligent on the NEEQ prior to its delisting (i.e. RMB17 per share); and (iii) the total consideration payable by Mr. Yu, in light of the small shareholding of Mr. Chen Dongliang (陳東亮) and Mr. Chen Muqiang (陳木強).

After completion of the above share transfers, Mr. Yu held an aggregate of approximately 45.45% of the total issued shares of Kidztech Intelligent.

(C) Acquisition of shares of Kidztech Intelligent by Mr. Xu

1. On 24 September 2019, Mr. Xu, as purchaser, entered into a share transfer agreement with Mr. JB Yu, as vendor, pursuant to which Mr. JB Yu agreed to sell 2,946,000 shares in, representing approximately 3.78% of the total issued shares of, Kidztech Intelligent that he held to Mr. Xu at a consideration of RMB13,257,000, representing a cost of RMB4.5 per share of Kidztech Intelligent acquired.

   Basis of consideration

   To the best knowledge and belief of our Directors, the basis of consideration of the acquisition from Mr. JB Yu by Mr. Xu was determined after arm's length negotiation between the parties with reference to (i) the purchase price of RMB1 per share for 1,980,000 shares of Kidztech Intelligent in March 2015 paid by Mr. JB Yu and the subsequent subscription price of RMB2 per share for 966,000 shares of Kidztech Intelligent paid by Qianhai Zhibenhui, 30% equity interest of which is held by Mr. JB Yu; (ii) the distribution of dividend of RMB1.3 per share of Kidztech

Intelligent in May 2019; and (iii) the net asset value per share of Kidztech Intelligent as at 31 August 2019 (i.e. approximately RMB3.7 per share). Mr. JB Yu recognised a gain from the disposal of Kidztech Intelligent's shares.

After completion of the above share transfer, Mr. Xu held approximately 4.16% of the total issued shares of Kidztech Intelligent.

(D) Acquisition of shares of Kidztech Intelligent by Ms. Song

On 24 September 2019, Ms. Song, as purchaser, entered into a share transfer agreement with each of Mr. Chen Shi (陳實) and Mr. Weng Shaofeng (翁少鋒), each as vendor, pursuant to which Mr. Chen Shi (陳實) and Mr. Weng Shaofeng (翁少鋒) agreed to sell 560,000 shares and 300,000 shares[Note] in, representing approximately 0.72% and 0.38% of the total issued shares of, Kidztech Intelligent that they held to Ms. Song at a consideration of RMB6,720,000 and RMB3,600,000 respectively, representing a cost of RMB12 per share of Kidztech Intelligent acquired.

Note: Immediately before the transfer, Mr. Weng Shaofeng (翁少鋒) acquired the 10,000 shares in Kidztech Intelligent held by Hengli AM at a consideration of RMB120,000, representing a cost of RMB12 per share of Kidztech Intelligent acquired.

Basis of considerations

To the best knowledge and belief of our Directors, the basis of considerations of the acquisitions from Mr. Chen Shi (陳實) and Mr. Weng Shaofeng (翁少鋒) by Ms. Song was determined separately after arm's length negotiation between the parties with reference to (i) the subscription price of RMB12 per share of Kidztech Intelligent paid by Mr. Chen Shi (陳實) and Zhonglian Hengli, 29% and 1% of partnership interest of which is held by Mr. Weng Shaofeng (翁少鋒) and Hengli AM respectively, in the 2017 Share Placement; and (ii) the distribution of dividend of RMB1.3 per share of Kidztech Intelligent in May 2019. Mr. Chen Shi (陳實) and Mr. Weng Shaofeng (翁少鋒) recognised a gain from the disposal of Kidztech Intelligent's shares.

After completion of the above share transfers, Ms. Song held an aggregate of approximately 3.03% of the total issued shares of Kidztech Intelligent.

None of Mr. Yu, Mr. Xu and Ms. Song was granted any special rights as a result of the above share transfers.

Please refer to the paragraph headed "Pre-IPO Investments" in this section below for further details of the acquisitions of shares by Mr. Yu, Mr. Xu and Ms. Song.

The terms of the above share transfers, including but not limited to, the number of shares transferred, the share price and basis of considerations were separately negotiated by the respective vendors and purchasers taking into account, among others, (i) that the initial investment costs paid by the vendors were different; (ii) the number of shares transferred; and (iii) that Northeast Securities, Tianfeng Securities, Zhoushan Junyao, Mr. Chen Dongliang (陳東亮), Mr. Chen Muqiang (陳木強) and Mr. JB Yu were unwilling to participate in Listing.

Therefore, the prices per share of Kidztech Intelligent acquired by Mr. Yu, Mr. Xu, Ms. Song and Ms. Ng (details of which are set out in the paragraph headed "6. Acquisition of equity interest of Kidztech Intelligent by Ms. Ng" in this section below) from other shareholders were different. The acquisition costs per share paid by Mr. Yu and Ms. Song were much higher than others as the initial investment costs paid by their respective vendors were higher. In addition, Mr. Yu, being one of our Controlling Shareholders, was willing to acquire the shares with relatively higher cost to facilitate our Reorganisation and the application for Listing.

The acquisition of shares of Kidztech Intelligent by Mr. Yu, one of our Controlling Shareholders, from shareholders who do not wish to participate in Listing could facilitate the delisting of Kidztech Intelligent on the NEEQ, our Reorganisation and the application for Listing. These shareholders do not wish to participate in Listing after taking into account (i) the additional time and costs required to comply with relevant laws and regulations (including foreign exchange regulations) in carrying out their offshore investment activities, and setting up and maintaining offshore holding companies; and (ii) whereas for Tianfeng Securities, Zhoushan Junyao and the two individual shareholders, their shareholdings in Kidztech Intelligent were insignificant.

Considering that shareholders who dissent to the delisting of Kidztech Intelligent could delay the delisting of Kidztech Intelligent on the NEEQ, our Reorganisation and thus the application for Listing, Mr. Yu acquired shares of Kidztech Intelligent from the above existing shareholders after negotiations on an arm's length basis.

In addition to the detailed basis of considerations set out in the paragraph headed "(D) Acquisition of shares of Kidztech Intelligent by Ms. Song" in this section above, to the best knowledge and belief of our Directors, Ms. Song has decided to further invest in our Group on a long-term basis by acquiring shares from other existing shareholders after negotiations on an arm's length basis as she is confident in our business prospects and growth potential as well as being able to further diversifying her portfolio by investing in a company which sought to list in Hong Kong.

Notwithstanding that the cost of acquisition of shares of Kidztech Intelligent by Mr. Yu and Ms. Song was at a premium to the Offer Price range, it was at a discount to the last quoted price of RMB17 per share of Kidztech Intelligent on the NEEQ, and the Offer Price range was yet to be determined at the time of their respective acquisition.

The respective vendors and purchasers have subsequently acknowledged the difference of considerations of the share transfers between other shareholders of Kidztech Intelligent and confirmed that such difference will not affect the original terms of the share transfer agreements they entered into and that there were no other arrangements among the respective vendors and purchasers in relation to the share transfers.

Immediately following the delisting and the above share transfers, the shareholding structure of Kidztech Intelligent is set out as below:

Name of shareholders	Number of shares	Approximate shareholding
Mr. Yu	35,450,000	45.45%
Mr. Yu Junhao (余俊浩)	13,000,000	16.67%
Mr. Cai	6,500,000	8.33%
Beifu Tech	3,900,000	5.00%
Mr. Xu	3,245,399	4.16%
Mr. Chen Shi (陳實)	2,440,000	3.13%
Ms. Song	2,360,000	3.03%
Mr. Chen Hongkai (陳鴻凱)	2,254,000	2.89%
Ms. Chen	1,950,000	2.50%
Mr. Huang Yu (黃宇)	1,820,000	2.33%
Mr. Huang Wenwei (黃文偉)	1,751,092	2.24%
Mr. Xie Weibin (謝偉彬)	1,000,721	1.28%
Ms. Ma Liang'e (馬良娥)	780,000	1.00%
Mr. Wang Jin (王瑾)	700,000	0.90%
Ms. Cao	250,000	0.32%
Mr. Wu	250,000	0.32%
Ms. Li Yina (李亦娜)	199,259	0.26%
Ms. Xie Dongsun (謝冬笋)	149,529	0.19%
Total	**78,000,000**	**100%**

3. Conversion of Kidztech Intelligent from a joint-stock company to a company with limited liability

On 1 November 2019, Kidztech Intelligent was converted from a joint-stock company with limited liability into a limited liability company and was renamed Kidztech (Guangdong) Intelligent Technology Co., Ltd.* (奇士達(廣東)智能科技有限公司).

4. Incorporation of BVI investment holding companies by the shareholders of Kidztech Intelligent and Ms. Ng

The shareholders of Kidztech Intelligent and Ms. Ng incorporated investment holding companies in the BVI. Details and shareholding of the BVI holding companies are set out below:

Name of BVI company	Date of incorporation	Shareholder(s)	Approximate shareholding
Top Synergy	19 September 2019	Mr. Yu	94.79%
		Ms. Chen	5.21%
Motivational Mathematics	11 September 2019	Ms. Ng	100%
Charming Flair	13 November 2019	Mr. Cai	100%
Cheerful Highflyer	19 September 2019	Mr. Chen Hongkai (陳鴻凱)	100%
Keen Pacemaker	11 September 2019	Mr. Pui	100%
Iconic Builder	19 September 2019	Mr. Xu	100%
Youthful Jaguar	13 November 2019	Mr. Yu Junhao (余俊浩)	100%
Courageous Soul	19 September 2019	Mr. Chen Shi (陳實)	100%
Top Alliance	19 September 2019	Mr. Huang Yu (黃宇)	70%
		Ms. Ma Liang'e (馬良娥)	30%
Humble Windsurfer	13 November 2019	Mr. Huang Wenwei (黃文偉)	100%
Superior Nature	18 September 2019	Ms. Song	100%
Darren Technology	13 November 2019	Mr. Xie Weibin (謝偉彬)	74.15%
		Ms. Li Yina (李亦娜)	14.77%
		Ms. Xie Dongsun (謝冬笋)	11.08%
Magical Joint	13 November 2019	Mr. Wang Jin (王瑾)	100%
Captivating Snow	13 November 2019	Ms. Cao	100%
Wondrous Diamond	11 September 2019	Mr. Wu	100%

5. Incorporation of Kidztech (China), our Company and Kidztech BVI

On 24 October 2019, Kidztech (China) was incorporated in Hong Kong as a limited liability company with a share capital of HK$1. As of the date of its incorporation, one ordinary share was allotted and issued to Keen Pacemaker.

On 25 October 2019, our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability. As of the date of its incorporation, the authorised share capital of our Company was HK$380,000, divided into 380,000,000 Shares with a par value of HK$0.001 each, among which one Share in, representing the entire issued share capital of, our Company, was allotted and issued to the initial subscriber pursuant to the Memorandum and Articles of Association, which was subsequently transferred to Keen Pacemaker on the same date.

On 6 November 2019, Kidztech BVI was incorporated in the BVI with limited liability. As of the date of its incorporation, the authorised share capital of Kidztech BVI was US$50,000, divided into 50,000 ordinary shares of US$1 each, and one share in, representing the entire issued share capital of, Kidztech BVI was allotted and issued to our Company.

On 7 November 2019, Keen Pacemaker transferred the one share it held in, representing the entire issued share capital of, Kidztech (China) to Kidztech BVI at a nominal consideration of HK$1.

6. Acquisition of equity interest of Kidztech Intelligent by Ms. Ng

On 30 October 2019, Ms. Ng, as purchaser, entered into a share transfer agreement with Mr. Yu Junhao (余俊浩), as vendor, pursuant to which Mr. Yu Junhao (余俊浩) agreed to sell 10,000,000 shares in, representing approximately 12.82% equity interest of, Kidztech Intelligent, at a consideration of RMB45,000,000, representing a cost of RMB4.5 per share of Kidztech Intelligent acquired.

Basis of consideration

To the best knowledge and belief of our Directors, the basis of consideration of the acquisition from Mr. Yu Junhao (余俊浩) by Ms. Ng was determined after arm's length negotiation between the parties with reference to (i) the subscription price of RMB2 per share of Kidztech Intelligent paid by Mr. Yu Junhao (余俊浩); (ii) the distribution of dividend of RMB1.3 per share of Kidztech Intelligent in May 2019; and (iii) the net asset value per share of Kidztech Intelligent as of 31 August 2019 (i.e. approximately RMB3.7 per share). Mr. Yu Junhao (余俊浩) recognised a gain from the disposal of Kidztech Intelligent's shares.

After completion of the registration of change of shareholding on 12 November 2019, Kidztech Intelligent is converted to a sino-foreign joint venture enterprise.

Please refer to the paragraph headed "Pre-IPO Investments" in this section below for further details.

7. Allotment and issue of Shares to the BVI investment holding companies

On 15 November 2019, our Company allotted and issued an aggregate of 77,999,999 Shares at par to the BVI investment holding companies. Upon completion of the allotment and issue, the shareholding structure of our Company is set out below:

Name of Shareholders	Number of Shares	Approximate shareholding
Top Synergy	37,400,000	47.95%
Motivational Mathematics	10,000,000	12.82%
Charming Flair	6,500,000	8.33%
Keen Pacemaker	3,900,000	5.00%
Iconic Builder	3,245,399	4.16%
Youthful Jaguar	3,000,000	3.85%
Top Alliance	2,600,000	3.33%
Courageous Soul	2,440,000	3.13%
Superior Nature	2,360,000	3.03%
Cheerful Highflyer	2,254,000	2.89%
Humble Windsurfer	1,751,092	2.24%
Darren Technology	1,349,509	1.73%
Magical Joint	700,000	0.90%
Captivating Snow	250,000	0.32%
Wondrous Diamond	250,000	0.32%
Total	**78,000,000**	**100%**

8. Establishment of Old PRC Holdco and injection of Kidztech Intelligent into Old PRC Holdco

On 21 November 2019, Old PRC Holdco was established in the PRC as a limited liability company by the shareholders of Kidztech Intelligent with the equity holding mirroring that of Kidztech Intelligent (other than Ms. Ng), with a registered share capital of RMB68,000,000. The capital contribution was satisfied by the injection of the shareholders' respective equity interest in Kidztech Intelligent (other than the approximate 12.82% equity interest in Kidztech Intelligent held by Ms. Ng) to Old PRC Holdco. Upon completion of the injection, Kidztech Intelligent is owned by Old PRC Holdco as to approximately 87.18% and Ms. Ng as to approximately 12.82%, respectively.

9. Establishment of WFOE and New PRC Holdco

On 21 November 2019, WFOE was established in the PRC as a wholly-foreign-owned enterprise with limited liability, with an initial registered capital of RMB1,000,000 subscribed by Kidztech (China).

On 22 November 2019, New PRC Holdco was established in the PRC as a company with limited liability, with an initial registered capital of RMB111,428,571, which WFOE, Old PRC Holdco and Ms. Ng subscribed for RMB110,325,317, RMB961,851 and RMB141,403, representing approximately 99.01%, 0.86% and 0.13% of the registered capital of New PRC Holdco, respectively. The capital contributions shall be paid by WFOE in cash and were satisfied by Old PRC Holdco and Ms. Ng by way of injection of their respective equity interest in Kidztech Intelligent to New PRC Holdco.

10. Acquisition of 0.99% equity interest of New PRC Holdco by WFOE

On 19 December 2019, WFOE acquired the approximate 0.86% and 0.13% equity interest in New PRC Holdco from Old PRC Holdco and Ms. Ng for a cash consideration of RMB961,851 and RMB141,403, respectively, which was determined with reference to the subscribed capital of Old PRC Holdco and Ms. Ng. After the said acquisition, New PRC Holdco became an indirect wholly-owned subsidiary of our Company.

11. Increase in the authorised share capital of our Company

On 13 February 2020, the authorised share capital of our Company was increased from HK$380,000 divided into 380,000,000 Shares to HK$5,000,000 divided into 5,000,000,000 Shares of par value of HK$0.001 each by the creation of an additional of 4,620,000,000 Shares.

PRE-IPO INVESTMENTS

Information about the Pre-IPO Investors

Summary of the Pre-IPO Investments is as follows:

	Mr. Yu	Ms. Song	Mr. Xu	Ms. Ng
Number of shares of Kidztech Intelligent acquired	2,496,000 from Northeast Securities, 97,000 from Tianfeng Securities, 1,000,000 from Zhoushan Junyao, 5,000 from Mr. Chen Dongliang (陳東亮) and 1,000 from Mr. Chen Muqiang (陳木強)	560,000 from Mr. Chen Shi (陳實) and 300,000 from Mr. Weng Shaofeng (翁少鋒)	2,946,000 from Mr. JB Yu	10,000,000 from Mr. Yu Junhao (余俊浩)
Amount of consideration paid	RMB35,983,200	RMB10,320,000	RMB13,257,000	RMB45,000,000
Date of transfer agreement	18 July 2019 (with Tianfeng Securities), 24 July 2019 (with Northeast Securities), 24 September 2019 (with Zhoushan Junyao, Mr. Chen Dongliang (陳東亮) and Mr. Chen Muqiang (陳木強))	24 September 2019	24 September 2019	30 October 2019
Date of full settlement of consideration	18 November 2019	29 October 2019	23 October 2019	11 November 2019
Effective cost per Share	Ranged from approximately HK$1.89 to HK$3.41	approximately HK$2.41	approximately HK$0.90	approximately HK$0.90
Discount to/Premium over the mid-point of the indicative Offer Price range Note 1	A premium of approximately 43.2% to 158.6% over the mid-point of the indicative Offer Price range	A premium of approximately 82.6% over the mid-point of the indicative Offer Price range	A discount of approximately 31.5% to the mid-point of the indicative Offer Price range	A discount of approximately 31.5% to the mid-point of the indicative Offer Price range
Basis of the consideration	Please refer to the sub-paragraph headed "2. Share transfers among existing shareholders of Kidztech Intelligent — (B) Acquisition of shares of Kidztech Intelligent by Mr. Yu" under the paragraph headed "Reorganisation" in this section above.	Please refer to the sub-paragraph headed "2. Share transfers among existing shareholders of Kidztech Intelligent — (D) Acquisition of shares of Kidztech Intelligent by Ms. Song" under the paragraph headed "Reorganisation" in this section above.	Please refer to the sub-paragraph headed "2. Share transfers among existing shareholders of Kidztech Intelligent — (C) Acquisition of shares of Kidztech Intelligent by Mr. Xu" under the paragraph headed "Reorganisation" in this section above.	Please refer to the sub-paragraph headed "6. Acquisition of equity interest of Kidztech Intelligent by Ms. Ng" under the paragraph headed "Reorganisation" in this section above.
Approximate shareholding in our Company upon Listing Note 2	39.80% Note 3	2.51%	3.45%	10.64%

	Mr. Yu	Ms. Song	Mr. Xu	Ms. Ng
Special rights	No special rights were granted.			
Use of proceeds	Since the Pre-IPO Investments involved transfer of existing share capital of Kidztech Intelligent, no fund was raised by our Group.			
Lock-up	Pursuant to Rule 10.07 of the Listing Rules, each of Mr. Yu and Top Synergy, as our Controlling Shareholders, has undertaken to us and to the Stock Exchange that except where permitted under the Listing Rules, he/it shall not (i) dispose of shares in the period commencing on the date by reference to which disclosure of his/its shareholding is made in the prospectus and ending on the date which is six months from the date of Listing (the "**First Lock-up Period**"); and (b) dispose of shares in the period of six months commencing on the date on which the First Lock-up Period expires if immediately following such disposal he/it would cease to be a Controlling Shareholder. For further details, please refer to the sub-paragraph headed "Undertakings to the Stock Exchange pursuant to the Listing Rules" under the paragraph headed "Undertakings" in the section headed "Underwriting" in this prospectus.	Superior Nature has voluntarily undertaken not to transfer, dispose of, nor enter into any agreement to transfer, dispose of or otherwise create any options, rights, interests or encumbrances in respect of the pre-IPO Shares held by it upon Listing during the period commencing on the date of the undertaking and ending on the date which is 12 months from the Listing Date.	Iconic Builder has voluntarily undertaken not to transfer, dispose of, nor enter into any agreement to transfer, dispose of or otherwise create any options, rights, interests or encumbrances in respect of the pre-IPO Shares held by it upon Listing during the period commencing on the date of the undertaking and ending on the date which is 12 months from the Listing Date.	Motivational Mathematics has voluntarily undertaken not to transfer, dispose of, nor enter into any agreement to transfer, dispose of or otherwise create any options, rights, interests or encumbrances in respect of the pre-IPO Shares held by it upon Listing during the period commencing on the date of the undertaking and ending on the date which is 12 months from the Listing Date.
Strategic benefits	Our Directors are of the view that (i) our Group can benefit from the Pre-IPO Investors' commitment to our Group and their investment demonstrate their confidence in the operation of our Group and serves as an endorsement of our Group's performance and prospect; and (ii) the acquisition of shares of Kidztech Intelligent by the Pre-IPO Investors from other minority shareholders of Kidztech Intelligent could facilitate Listing and our Reorganisation by providing opportunities for the existing shareholders who do not wish to participate in Listing to exit or reduce their shareholding.			

Notes:

1. *The percentage is calculated based on an Offer Price of HK$1.32, being the mid-point of the indicative range of the Offer Price between HK$1.17 to HK$1.47.*

2. *Pursuant to our Reorganisation, Mr. Yu, Ms. Song, Mr. Xu and Ms. Ng ceased to be direct shareholders of Kidztech Intelligent, and the investment holding vehicle of each of Mr. Yu (together with his spouse, Ms. Chen), Ms. Song, Mr. Xu and Ms. Ng, namely, Top Synergy, Superior Nature, Iconic Builder and Motivational Mathematics, was allotted and issued 37,400,000 Shares, 2,360,000 Shares, 3,245,399 Shares and 10,000,000 Shares on 15 November 2019, respectively.*

3. *The percentage refers to the shareholding of Top Synergy, which is owned as to 94.79% by Mr. Yu and as to 5.21% by Ms. Chen, the spouse of Mr. Yu, respectively.*

Information regarding our Pre-IPO Investors

Mr. Yu

Mr. Yu is one of our Controlling Shareholders, our chairman, executive Director and chief executive officer. For further details of his biographical information, please refer to the paragraph headed "Executive Directors" in the section headed "Directors and senior management" of this prospectus.

Ms. Song

Ms. Song is a private and experienced investor who looks for different investment opportunities. She first became a shareholder of Kidztech Intelligent by subscribing for its shares in the 2017 Share Placement, as an investor introduced to us by Northeast Securities. To the best knowledge and belief of our Directors, as she is confident in our business prospects and growth potential; therefore she has decided to further invest in our Group so as to diversify her investment portfolio.

Mr. Xu

Mr. Xu is a private investor who looks for different investment opportunities and was introduced to Mr. Yu via mutual friends around five years ago. He first invested in Kidztech Intelligent as a limited partner of Derun Kechuang which subscribed for shares of Kidztech Intelligent in the 2017 Share Placement. To the best knowledge and belief of our Directors, Mr. Xu realises the strong growth potential and business prospects of the toy vehicle manufacturing industry, especially in the PRC and is also optimistic about the potential business growth of our Group; therefore he has decided to invest in our Group.

Ms. Ng

Ms. Ng has been a deputy general manager of Worldwise Industrial Ltd., a garment manufacturer which has business in the PRC, North America and western Europe, since July 2010. Additionally, she is a member of 13th Shantou Municipal Committee of Chinese People's Political Consultative Conference (CPPCC). She is also a private investor who looks for different investment opportunities and was first introduced to Mr. Yu via mutual friends around five years ago. Given her business experience and network, our Directors believe that her investment could bring about synergy and business opportunity to our Group.

To the best knowledge of our Directors, each of Ms. Song, Mr. Xu and Ms. Ng is an Independent Third Party and their source of funding to acquire shares of Kidztech Intelligent was from their own resources and they were not financed directly or indirectly by connected persons of our Company. Our Directors believe that the investment of Ms. Song, Mr. Xu and Ms. Ng has demonstrated their confidence in the operations of our Group and has served as endorsements of our Group's performance, strength and prospects.

Public float

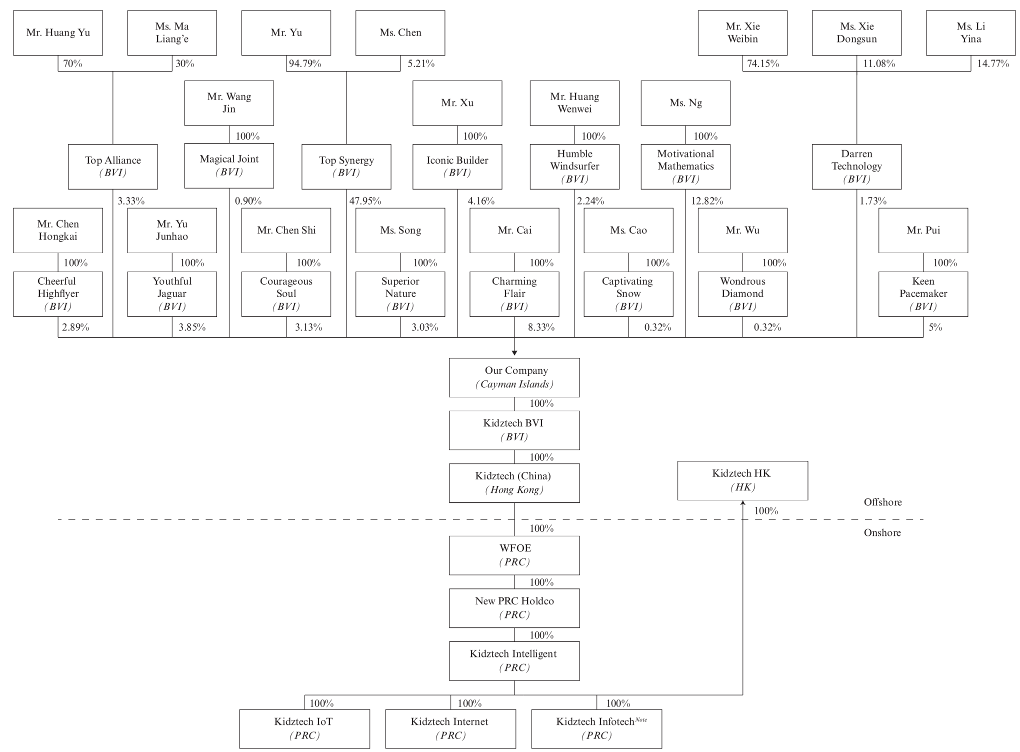
Shares held by Superior Nature and Iconic Builder, being the investment holding companies of Ms. Song and Mr. Xu, respectively, will be counted towards the public float upon Listing for the purpose of Rule 8.08 of the Listing Rules. Shares held by Top Synergy, being the investment holding companies of Mr. Yu and Ms. Chen, will not be counted towards the public float as Top Synergy, Mr. Yu and Ms. Chen are our Controlling Shareholders. Shares held by Motivational Mathematics, being the investment holding company of Ms. Ng, will not be counted towards the public float as each of Motivational Mathematics and Ms. Ng will be a Substantial Shareholder upon Listing.

Compliance with Interim Guidance and Guidance Letters

The Sole Sponsor has confirmed that the investments of the Pre-IPO Investors are in compliance with the Interim Guidance on Pre-IPO Investments issued by the Stock Exchange on 13 October 2010 and as updated in March 2017, the Guidance Letter HKEx-GL43–12 issued by the Stock Exchange in October 2012 and as updated in July 2013 and March 2017 and the Guidance Letter HKEx-GL29–12 issued by the Stock Exchange in January 2012 and as updated in March 2017.

CORPORATE AND SHAREHOLDING STRUCTURE

The following chart illustrates the shareholding structure following completion of our Reorganisation, and immediately prior to the Global Offering and the Capitalisation Issue:



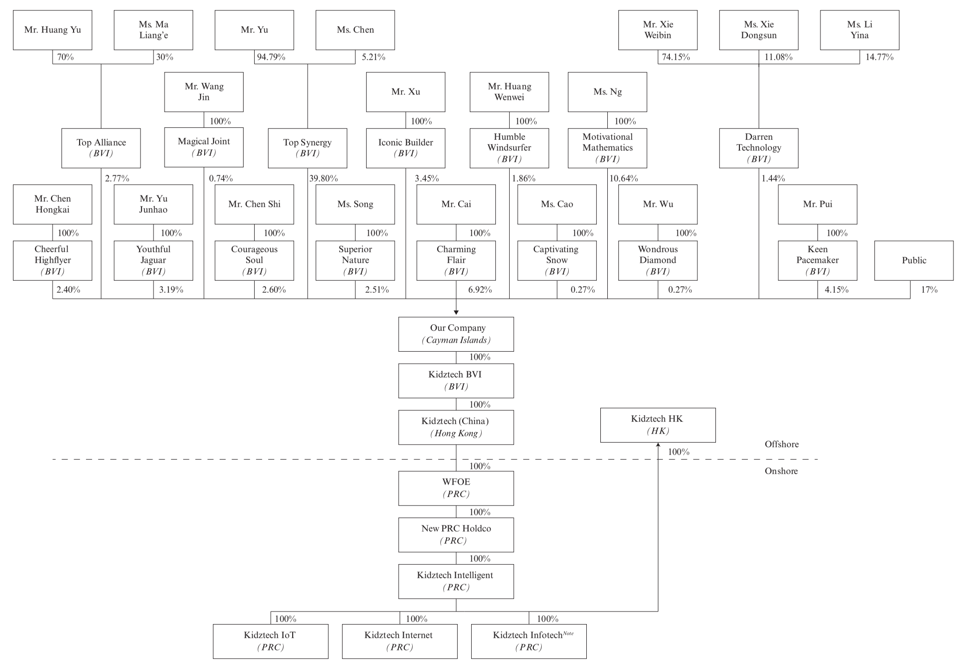
Note:

During the year ended 31 December 2017, Kidztech Intelligent entered into an arrangement with Shantou Jinyuan whereby Kidztech Intelligent and Shantou Jinyuan are entitled to inject registered equity capital of RMB71,000,000 and RMB25,000,000 respectively into Kidztech Infotech, representing respective equity interest of 73.96% and 26.04%. In January 2019, pursuant to the local government policy, Shantou Jinyuan transferred the equity interest in Kidztech Infotech it held to Shantou Tourongzi, a company wholly owned by the Shantou Municipal Government, which assumed all contractual rights and obligations of Shantou Jinyuan under the arrangement. Under the arrangement, Kidztech Intelligent was required to repay the equity investment of RMB25,000,000 to the State-owned Company on 30 March 2020 together with an aggregate fixed return of RMB1,875,000. The State-owned Company is not entitled to any share of profit or residual assets of Kidztech Infotech and accordingly, our Directors treated Kidztech Infotech as a 100% owned subsidiary of our Group. The RMB25,000,000 capital injection from the State-owned Company was treated as other borrowings of our Group during the Track Record Period.

Capitalisation Issue

Conditional upon the crediting of our Company's share premium account as a result of the allotment and issue of the Offer Shares pursuant to Listing, our Directors are authorised to capitalise an amount of HK$353,600 standing to the credit of the share premium account of our Company by applying such sum towards the paying up in full at par of a total of 353,600,000 Shares for allotment and issue, immediately prior to the Global Offering, to our Shareholders whose names appear on the register of members of our Company as of 13 February 2020, on a pro-rata basis.

The following chart sets forth our Group's corporate and shareholding structure after completion of the Global Offering and the Capitalisation Issue (assuming that any of the Adjustment Options is not exercised):



Note:

During the year ended 31 December 2017, Kidztech Intelligent entered into an arrangement with Shantou Jinyuan whereby Kidztech Intelligent and Shantou Jinyuan were entitled to inject registered equity capital of RMB71,000,000 and RMB25,000,000 respectively into Kidztech Infotech, representing respective equity interest of 73.96% and 26.04%. In January 2019, pursuant to the local government policy, Shantou Jinyuan transferred the equity interest in Kidztech Infotech it held to Shantou Tourongzi, a company wholly owned by the Shantou Municipal Government, which assumed all contractual rights and obligations of Shantou Jinyuan under the arrangement. Under the arrangement, Kidztech Intelligent was required to repay the equity investment of RMB25,000,000 to the State-owned Company on 30 March 2020 together with an aggregate fixed return of RMB1,875,000. The State-owned Company is not entitled to any share of profit or residual assets of Kidztech Infotech and accordingly, our Directors treated Kidztech Infotech as a 100% owned subsidiary of our Group. The RMB25,000,000 capital injection from the State-owned Company was treated as other borrowings of our Group during the Track Record Period.

CIRCULAR 37

Pursuant to the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) ("**Circular 37**"), (i) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (the "**Overseas SPV**") that is directly established or controlled by the PRC resident for the purpose of conducting investment or financing; and (ii) following the initial registration, the PRC resident is required to register with the local SAFE branch for any major change in respect of the Overseas SPV, including, among other things, a change in the Overseas SPV's PRC resident shareholder, name of the Overseas SPV, term of operation or any increase or reduction of the Overseas SPV's registered capital, share transfer or swap, and merger or division. Pursuant to Circular 37, failure to comply with these registration procedures may result in penalties, including the imposition of restrictions on the ability of the Overseas SPV's PRC subsidiary to distribute dividends to its overseas parent.

As advised by our PRC Legal Advisers, Mr. Yu, Ms. Chen, Mr. Yu Junhao (余俊浩), Mr. Cai, Mr. Chen Hongkai (陳鴻凱), Mr. Chen Shi (陳實), Ms. Song, Ms. Cao, Mr. Wu, Mr. Wang Jin (王瑾), Mr. Xie Weibin (謝偉彬), Mr. Huang Wenwei (黃文偉), Ms. Xie Dongsun (謝冬笋), Ms. Li Yina (李亦娜), Mr. Huang Yu (黃宇), Ms. Ma Liang'e (馬良娥) and Mr. Xu who are PRC residents, completed the registrations as required by Circular 37 on 18 November 2019, and such registrations have complied with the provisions set forth in Circular 37.

M&A RULES

Articles 4 of the M&A Rules stipulates that, for the purpose of realising an overseas listing, if the shareholders of a foreign special purpose vehicle ("**SPV**") purchase the equity interest or subscribe for the increased capital of a domestic company with their equity interests or the new issued shares of the SPV as the means of payment, the listing of such foreign SPV is subject to the approval of the State Council's securities regulatory authority.

We were advised by our PRC Legal Advisers that, since there was no such acquisition throughout the history of our Group, the requirement under Article 4 of the M&A Rules does not apply to Listing and no approval is required to be obtained from CSRC or other regulatory authorities in the PRC for Listing.

Article 11 of the M&A Rules stipulates that, where a domestic company or enterprise, or a domestic natural person, through an overseas company established or controlled by it/him/her, acquires a domestic company which is related to or connected with it/him/her, approval from the MOFCOM is required. Pursuant to the Manual of Guidance on Administration for Foreign Investment Access (《外商投資准入管理指引手冊》) promulgated by MOFCOM in December 2008, notwithstanding the fact that (i) the domestic shareholder is connected with the foreign investor or not; or (ii) the foreign investor is the existing shareholder or a new investor, the M&A Rules shall not apply to the transfer of an equity interest in a foreign-invested enterprise from a domestic shareholder to a foreign investor.

We were advised by our PRC Legal Advisors that since New PRC Holdco obtained the entire equity interest of Kidztech Intelligent after Kidztech Intelligent was converted into a sino-foreign joint venture enterprise, Article 11 of the M&A Rules is not applicable to our Reorganisation and the approval of MOFCOM is not required.

OVERVIEW

We have a vision of becoming a smart interactive entertainment product provider. We principally design, develop, manufacture and sell high quality smart toy vehicles, smart interactive toys and traditional toys. Both the toy manufacturing industry and smart toy vehicle manufacturing industry of the PRC are highly fragmented. According to the CIC Report, we ranked ninth in the domestic toy manufacturing market in the PRC in terms of sales revenue for 2018, with market share of approximately 0.1%. According to the CIC Report, in terms of sales revenue in the toy vehicle manufacturing industry and the smart toy vehicle manufacturing industry in the PRC in 2018, we have a market share of 0.8% and 1.4% respectively, being second among the industry players, and are also the largest non-listed private company in both markets. In addition, we are the only player among the top 10 domestic toy manufacturers that manufactures with full ICTI certification on OBM, ODM and OEM bases in 2018. We also commenced selling smart hardware during the Track Record Period. We have strong capability in product innovation and design, and well-established collaboration with reputable automobile (according to the CIC Report, luxury vehicle brands include Bugatti, Lamborghini, Pagani, Mclaren, Lykan Hypersport, Audi and Mercedes-Benz), entertainment characters and toy brand (including certain brands owned by one of the top 10 retail brands in the global toy market in 2018 according to the CIC Report) licensors. We were accredited as a High and New Technology Enterprise on 9 December 2016, which is effective for three years commencing on 1 January 2016.

We focus on overseas market and we sell our products to overseas customers directly and through PRC Export-Oriented Wholesalers. Our retail customers mainly comprise large scale and reputable multinational and national retailers operating mass market retail chain stores, including both comprehensive retailers and toy specialty retailers. According to the CIC Report, major comprehensive retailers include Walmart, Auchan, Argos, ASDA and Target, and major comprehensive toy specialty retailers include Toys 'R' Us, Hamleys, Ludendo and Smyths. Our customers include the world's largest multinational retail corporations that operate a chain of hypermarkets, and a number of the largest toy retailers in Asia, Europe and the world. We also sell our products to wholesalers, mainly including (i) overseas wholesalers; and (ii) the PRC Export-Oriented Wholesalers. In addition, we sell our products to PRC retailers, PRC Domestic-Sale-Oriented Wholesalers, and overseas customers which engage us to manufacture on ODM and OEM bases, including Dickie. Our products are (i) branded with our "kidztech" brand; (ii) co-branded with (aa) renowned automobile manufacturers, (bb) popular entertainment characters featured in animated television series or motion pictures or (cc) toy brand owner; and (iii) branded under our overseas customers' brands, which mainly represent the products we manufacture on ODM and OEM bases and the products sold to our customers branded under their respective brands.

According to the CIC Report, domestic manufacturers in the PRC have started to focus more on the branding as well as research and development as OBM companies often benefit from either having their own independent research and development, branding, manufacturing and distribution that cover the whole value chain, or only having high value-adding elements, such as branding and designing, of the value chain of the toy manufacturing industry in the PRC. The market share of OBM companies in the PRC, in terms of output value, increased significantly from approximately 2.7% in 2014 to approximately 7.1% in 2018, and it is expected that this trend will continue in the future.

We have strong capability in product innovation and design through undertaking design and development of products in-house in all our Hong Kong, Shenzhen and Guangdong operations. According to the CIC Report, China is the world's largest export hub of toys, while Hong Kong is the world's largest sales hub of toys through China's export. With our global exposure through our operation in Hong Kong, we are able to keep track of the latest global trend in toy products. We formulate desirable designs of toy products, including aesthetic outlook, features and functions thereof, that can satisfy market demand and cater for our customers' needs according to the market trend. Our design, research and development department based in Shenzhen, the PRC, being the leading innovative city in China which is also known as "China's Silicon Valley" with abundance of research and development talents, formulates three-dimensional designs, and prototypes will be built to test the feasibility of commercialising product designs. Our Shenzhen operation is also responsible for formulating product design for our smart hardware, which production is subcontracted to independent third parties. Our production department in the Production Plants located in Shantou, Guangdong Province, the PRC, is mainly responsible to produce moulds for new products for trial production and manufacturing of our products. According to the CIC Report, our Group is one of the few PRC manufacturers that is a private group and has its own Hong Kong operation for overseas sales and product design. As at 31 August 2019, our Production Plants, with a total gross floor area of approximately 33,000 sq.m., housed 72 plastic injection moulding machines. The synergy between our Hong Kong and PRC operations has enabled us to possess vertically integrated design, development, manufacturing and sale capability which allows us to conduct most of our operations in-house and sell our high quality and high cost-performance products to both overseas and PRC customers.

We adopt a global licensing strategy to acquire licensed rights from reputable automobile manufacturers. Our products are co-branded with such automobile manufacturers so as to leverage on the marketing benefits of the internationally renowned automobile brands to expediently gain consumer awareness, recognition of authenticity and establish creditability and market acceptance from the mass market. We have developed relationships with a number of reputable automobile manufacturers for at least seven years, and the licensing arrangements which we entered into with them covered territories on a worldwide basis. As at the Latest Practicable Date, we had been granted licensed rights of renowned automobile brands under more than 20 licensing agreements with certain luxury vehicle brands. According to the CIC Report, luxury vehicle brands include Bugatti, Lamborghini, Pagani, Mclaren, Lykan Hypersport, Audi and Mercedes-Benz. As our co-branded toy vehicles have been well accepted in the overseas market, the Famous Toy Brand Licensor as well as entertainment character licensors, including the Famous Entertainment Character Licensor, subsequently initiated to grant us licensed rights of renowned toy brand and entertainment characters. As at the Latest Practicable Date, we had been granted licensed rights of a reputable toy brand from the Famous Toy Brand Licensor, and five entertainment characters, including a common licensed entertainment character from the Famous Entertainment Character Licensor. In addition, we also sell our toy products with our "kidztech" brand, in particular for sale of our toy products in the PRC, as well as our customers' brands in the overseas market.

During the Track Record Period, we principally sold our products to different types of retailer, and wholesaler, on an outright basis. According to the CIC Report, there are two major types of retailers in the global toy market, namely, comprehensive retailers (e.g. Walmart, Auchan, Argos, ASDA and Target) and comprehensive toy specialty retailers (e.g. Toys 'R' Us, Hamleys, Ludendo and Smyths). Our retailer customers include such major comprehensive retailers as well as major comprehensive toy specialty retailers, which include the world's largest multinational retail corporations that operate a chain of hypermarkets, and a number of the largest toy retailers in Asia, Europe and the world. Our "kidztech" branded and co-branded products are mainly sold to (i) comprehensive retailers and comprehensive toy specialty retailers in the U.S. and Europe; and (ii) wholesalers in the PRC, including the PRC Export-Oriented Wholesalers. During the Track Record Period, we also sold our products under overseas customers' brands. We intend to continue to prioritise and focus on overseas market by (i) maintaining and strengthening relationship with our existing direct overseas customers; and (ii) expanding our customer base in overseas market. We also intend to continue to strengthen, expand and diversify our customer base by focusing on PRC Export-Oriented Wholesalers and PRC retailers.

Based on destination of delivery, a substantial amount of our sales derived from sale of our toys to overseas customers, which accounted for approximately 73.8%, 69.2%, 48.0% and 47.7% of our total revenue for the three years ended 31 December 2018 and the eight months ended 31 August 2019, respectively. Apart from our direct sales to overseas customers, in order to maintain and expand our market presence in overseas market, we also sold our products to overseas market through PRC Export-Oriented Wholesalers. During the Track Record Period, approximately 17.7%, 21.6%, 30.1% and 36.9% of our total revenue were derived from our sales to PRC Export-Oriented Wholesalers, respectively.

The following table sets out our revenue breakdown by customer type during the Track Record Period:

	For the year ended 31 December						For the eight months ended 31 August			
	2016		2017		2018		2018		2019	
	Revenue RMB'000	*%*	*Revenue RMB'000*	*%*	*Revenue RMB'000*	*%*	*Revenue RMB'000 (unaudited)*	*%*	*Revenue RMB'000*	*%*
Retailers										
— Overseas retailers	127,249	59.5	105,597	40.7	98,798	35.4	58,478	39.2	77,423	36.8
— PRC retailers	14,950	7.0	15,897	6.2	39,525	14.2	23,183	15.5	22,668	10.8
Sub-total:	142,199	66.5	121,494	46.9	138,323	49.6	81,661	54.7	100,091	47.6
Wholesalers										
— Overseas wholesalers	13,892	6.5	10,873	4.2	14,395	5.2	8,260	5.5	14,456	6.9
— PRC Export-Oriented Wholesalers	37,871	17.7	55,958	21.6	83,759	30.1	40,150	26.9	77,592	36.9
— PRC Domestic-Sale-Oriented Wholesalers	1,959	0.9	8,089	3.1	19,368	6.9	8,426	5.6	9,292	4.4
Sub-total:	53,722	25.1	74,920	28.9	117,522	42.2	56,836	38.0	101,340	48.2
Overseas ODM and OEM customers	16,733	7.8	62,768	24.2	20,626	7.4	10,725	7.2	8,356	4.0
Others *(Note)*	1,371	0.6	3	0.0	2,246	0.8	158	0.1	453	0.2
Total	214,025	100.0	259,185	100.0	278,717	100.0	149,380	100.0	210,240	100.0

Note: Others mainly represent companies engaging in various kinds of businesses, including kids-related businesses, which to the best of our Directors' knowledge and belief, purchased our products as ancillary gifts to their customers.

The table below sets out the breakdown of our revenue by product type during the Track Record Period:

	For the year ended 31 December						For the eight months ended 31 August			
	2016		2017		2018		2018		2019	
	Revenue RMB'000	*%*	*Revenue RMB'000*	*%*	*Revenue RMB'000*	*%*	*Revenue RMB'000 (unaudited)*	*%*	*Revenue RMB'000*	*%*
Smart toys										
— Smart toy vehicles	171,967	80.4	219,220	84.6	218,120	78.3	119,440	80.0	135,617	64.5
— Smart interactive toys	22,753	10.6	15,555	6.0	19,659	7.0	9,943	6.7	19,381	9.2
Sub-total:	194,720	91.0	234,775	90.6	237,779	85.3	129,383	86.7	154,998	73.7
Traditional toys *(Note)*	19,305	9.0	24,410	9.4	34,500	12.4	16,646	11.1	52,182	24.8
Smart hardware	—	—	—	—	6,438	2.3	3,351	2.2	3,060	1.5
Total	214,025	100.0	259,185	100.0	278,717	100.0	149,380	100.0	210,240	100.0

Note: Approximately RMB17.8 million, RMB24.4 million, RMB34.5 million, RMB16.6 million and RMB50.3 million were derived from sale of traditional toy vehicles during the year ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2018 and 2019, respectively.

The following table sets out a breakdown of our revenue attributable to products under different brands during the Track Record Period:

	For the year ended 31 December						For the eight months ended 31 August			
	2016		2017		2018		2018		2019	
	Revenue RMB'000	*%*	*Revenue RMB'000*	*%*	*Revenue RMB'000*	*%*	*Revenue RMB'000 (unaudited)*	*%*	*Revenue RMB'000*	*%*
"kidztech" brand	80,367	37.5	80,852	31.2	144,572	51.8	72,960	48.9	103,517	49.2
Co-brand	113,971	53.3	114,104	44.0	111,641	40.1	64,598	43.2	89,300	42.5
Overseas customers' brands *(Note)*	19,687	9.2	64,229	24.8	22,504	8.1	11,822	7.9	17,423	8.3
Total	214,025	100.0	259,185	100.0	278,717	100.0	149,380	100.0	210,240	100.0

Note: Mainly represent overseas customers which engaged us on ODM and OEM bases and customers which we sold our products branded under their respective brands.

For the year ended 31 December 2018, leveraging our expertise in design and manufacturing of high quality and smart toy vehicles and with a vision of becoming a smart interactive entertainment product provider, we have expanded our product mix and commenced selling smart hardware, such as Bluetooth speakers.

COMPETITIVE STRENGTHS

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

Our products have been sold to a wide variety of customers, which covers a majority of toy sales channels.

During the Track Record Period, we principally sold our products to different types of retailer and wholesaler, on an outright basis. According to the CIC Report, there are two major types of retailer in the global toy market, namely, comprehensive retailers and comprehensive toy specialty retailers, which comprise the whole value chain of retail channels. Comprehensive retailers sell a variety of groceries and goods, while comprehensive toy specialty retailers only sell toys. Our retailer customers include such major comprehensive retailers as well as major comprehensive toy specialty retailers, which include the world's largest multinational retail corporations that operate a chain of hypermarkets, and a number of the largest toy retailers in Asia, Europe and the world.

We also sold our products to wholesalers, including (i) overseas wholesalers; (ii) PRC Export-Oriented Wholesalers; and (iii) PRC Domestic-Sale-Oriented Wholesalers. We understand the destinations of our products which would be sold by the PRC Export-Oriented Wholesalers through communication with the PRC Export-Oriented Wholesalers and information available to our Directors. The export destinations of the PRC Export-Oriented Wholesalers mainly include North America, Latin America, Western Europe and Asia Pacific. Through sale of products to our wholesaler customers, we believe that our products would be ultimately sold to (i) overseas retailers (through our overseas wholesaler customers or PRC Export-Oriented Wholesalers); and (ii) PRC retailers (through our PRC Domestic-Sale-Oriented Wholesalers).

We believe such a wide variety of customers would enable us to have a substantial coverage of value chain for sales channels, and enable us to have our products being ultimately sold to end consumers worldwide. We believe that we are well-positioned to capture the future growth in demand in the global toy market.

We have established long and good business relationship with various international retailers and wholesalers.

We have established a diverse and extensive global customer base. During the Track Record Period, we sold our products directly to over 300 customers in aggregate in over 50 countries, including the United States, the United Kingdom, Brazil, Japan, Australia and South Africa, across six continents. Our customers include different types of retailer and wholesaler. During the year ended 31 December 2018, we have commenced selling products to customers which are online mass market retailers.

We believe this broad and multi-level customer base allows us to have a stable business and also to diversify our income source. With our dedication to product innovation, service quality, on-time delivery and competitive pricing throughout the years, we have maintained long term and stable business relationships with a number of key reputable international retailers and multinational toy specialty chain stores. For example, we have been conducting business with a company traded under the name of the Renowned Multinational Retailer for at least five years.

We believe that our in-depth knowledge and expertise in the global toy manufacturing industry are essential to our business, and is a crucial factor for the recognition of our position. Further, we believe our strong relationships with key reputable international retailers and multinational toy specialty chain stores have also improved our credibility, strengthened our market presence, both globally and within the PRC, and will enhance our reputation, assisting us to attract new customers.

We have a pioneer market position with strong capability in product innovation and design.

We have leveraged on our in-depth knowledge of and experience in the production of our toy products, our smart toy vehicles, in particular, designed for kids aged three or above. According to the CIC Report, smart toys come in many forms. In terms of function, intelligence and interaction have become two important characteristics of smart toys, where toys can communicate with children "emotionally", and then cultivate a child's good habits and finally achieve the purposes of teaching and playing. At the same time, in respect of interactive experience, high-technology smart toys have gradually become the mainstream toy product. The combination of computer technology and toys has become popular since high-technology smart toys satisfy the curiosity of consumers, while strengthening customers' interactive experience with toys.

We undertake design and development of products in-house to build a strong brand with strong capability in product innovation and design in order to maximise interactive experience of end consumers of our toy products. According to the CIC Report, China is the world's largest export hub of toys, while Hong Kong is the world's largest sales hub of toys through China's export. With our global exposure through our operation in Hong Kong, we are able to keep track of the latest global trend in toy products. Our customers would also exchange ideas with us from time to time. Based on our own product development plans incorporating product design concepts obtained from market intelligence and/or customers' suggestions, we design our products that can satisfy market demand and cater for our customers' needs according to the market trend. We endeavour to improve customers' satisfaction by adding additional features and functions to our products without significantly increasing our production cost. Our design, research and development department, comprising product designers and mechanical and electrical engineers, is dedicated to designing and developing innovative toy products to enhance kids' skill-building as well as optimising their play experience.

Our strong capability in product innovation and design includes designing and developing a toy racer that is able to run upside down along the track. In addition, we have also developed, among others, (i) a full function radio controlled stunt toy racer that is able to flip and spin at different angles; (ii) a full function radio controlled and amphibious toy car that is able to drive through water, dirt, mud, sand, pavement and grass; and (iii) a radio controlled interactive toy dinosaur that is capable of moving at different angles, making different expressions and emitting smoke. Apart from concentrating on developing new products as a whole, we have also developed particular components of our products. For example, we developed an electric circuit component that improves electric efficiency for our smart toys. As at the Latest Practicable Date, we have registered more than 50 patents in the PRC. Please refer to the paragraph headed "Product design and development" in this section below for further details. According to the CIC Report, we have a leading position in technology-based toy vehicle field. Among the top 10 domestic manufacturers in toy manufacturing industry in terms of sales revenue in the PRC in 2018, our Group is the only player that emphasises on manufacturing of smart toys on OBM, ODM and OEM bases at the same time. We believe our leading market position stems from our unique product strategies in developing innovative products which are capable of addressing the rapidly evolving toys market globally.

We dedicate ourselves to quality and safety of our products.

We are competent in meeting the stringent quality and safety standards which the toy manufacturing industry is subject to in jurisdictions where our customers locate.

We dedicate ourselves to the quality and safety of our products. As we focus on manufacturing toy products for kids aged three or above, we are required to follow the stringent product safety standards set by our customers. In many countries, in order to prevent accidents, toy products must be able to pass safety tests several times prior to their sales thereof. To ensure manufacturing processes are performed to the highest quality standards, we have obtained, among others, ICTI certification, Supplies Compliance Audit Network (SCAN) certification, Global Security Verification (GSV) certification and Business Social Compliance Initiative (BSCI) certification. As our co-branded toy vehicles have been well accepted in the overseas market, reputable toy brand licensor and entertainment character licensors subsequently initiated to grant us licensed rights of respective renowned toy brand and entertainment characters. We have a dedicated quality control department comprising 46 staff as at 31 August 2019 responsible for implementing our stringent quality control measures in selecting our raw materials, packaging materials as well as throughout our production process. Furthermore, all products are tested to ensure compliance with customers' and/or licensors' requirements and the applicable international standards before they are put into production. In addition to obtaining various quality related certifications, we maintain product liability insurance for our co-branded products sold to our overseas customers. In respect of our sale of smart toys in the PRC, we engage independent third parties to conduct testing thereon for China Compulsory Certification. Despite the complexity of the manufacturing process of our products, which involves plastic injection moulding as well as electronic components assembling, we are still able to manufacture high quality products that are able to meet quality and safety requirements in numerous countries around the world, including those imposed in the U.S. and the E.U.. We had not experienced any issue relating to product recalls by our customers during the Track Record Period and as at the Latest Practicable Date.

We believe that our emphasis on product quality and safety has contributed to our success in gaining our customers' confidence in our products, which is essential to our long-term development in the toy manufacturing industry.

We possess a broad range of production capabilities with vertically and horizontally integrated operation to carry out comprehensive design and sale for toy products.

With our vertically and horizontally integrated operation in Hong Kong, Shenzhen and Guangdong Province, the PRC, we provide our customers with comprehensive development services through designing, developing, manufacturing and sale of high quality toy products.

We have strong capability in product innovation and design through undertaking design and development of products in-house in all our Hong Kong, Shenzhen and Guangdong operations. According to the CIC Report, the PRC is the largest export hub of toys worldwide, while Hong Kong is the largest sales hub of toys worldwide through exports from the PRC. With our global exposure through our operation in Hong Kong, we formulate desirable designs of toy products, including aesthetic outlook, features and functions thereof. After our design, research and development department in Hong Kong design new products in two-dimensional graphics, our design, research and development department based in Shenzhen, being the leading innovative city in China which is also known as "China's Silicon Valley" with abundance of research and development talents, would formulate a three-dimensional design of such toy product based on the two-dimensional graphics prepared by our product designers in Hong Kong. In addition, a prototype will be built to test the functionality of such toy product. When the prototype is finalised, our production department in the Production Plants would develop a mould for such product and engage in trial production.

Our Production Plants are strategically located at Shantou City, the PRC. Chinese toy products' industrial clusters are mostly located in Chenghai, a district located in Shantou City, the Guangdong Province, the PRC. Chenghai in Shantou has been a manufacturing hub for toy industry in the PRC, where toy wholesalers, traders and merchandisers from various regions in the PRC and overseas can find the most centralised and innovative toy manufacturers. Chenghai was awarded as "China Toys and Gifts City" by China Light Industry Association in 2013. Local manufacturers can (i) have easy access to technical talents and skilled workers for smart toys; and (ii) purchase raw materials and components needed for production more conveniently as these can be procured locally. When compared with other regions in China, Shantou enjoys a relatively lower labour costs in general.

Our vertically-integrated Production Plants have enabled us to conduct most of the manufacturing process in-house. Our production capabilities include plastic injection, electronic components assembling, pad printing and spray painting, welding operation, and label application etc.. We believe our vertically-integrated production capabilities allow us to maintain our production process in an efficient and flexible manner, thus allowing us to possess control over the production and quality of our products.

Our Production Plants are also horizontally-integrated whereby we adopt a focused product strategy on smart toy, in particular. Such strategy could minimise the variety of parts and components involve where certain common parts, such as radio controlled remote controls, rocking base and wheels, as common parts could be utilised in many different models of our smart toy vehicles and traditional toy vehicles. With our research and development capability, we are also able to minimise raw materials and equipment involved during the manufacturing process, streamline the procedures and formulate efficient production plans. This enables us to take advantage of horizontal integration and achieve economies of scale in production.

The synergy between our Hong Kong and PRC operations has enabled us to carry out comprehensive design and sale for our toy products and gives us a competitive edge over toy companies which are solely engaged in either toy design, manufacturing or sales operation. Please refer to the paragraph headed "Our business model" in this section below for further details. We believe that this comprehensive design and sales business model enables us to improve product quality and increase efficiency.

We have adopted a global licensing strategy and have established strong standing relationships with renowned automobile manufacturers, toy brand licensor and entertainment character licensors.

We adopt a global licensing strategy where we partner with renowned automobile manufacturers with certain luxury vehicle brands (according to the CIC Report, luxury vehicle brands include Bugatti, Lamborghini, Pagani, Mclaren, Lykan Hypersport, Audi and Mercedes-Benz), toy brand licensor, as well as entertainment character licensors and develop our co-branded products in order to leverage on consumer awareness and marketing benefits of the renowned automobile manufacturers, toy brand licensor and entertainment character licensors on a global basis. Accordingly to the CIC Report, with the improvement of consuming power and popularity of cultural industries, creative elements has been increasingly being implemented in the design for toy products with intellectual properties, improving intellectual properties' influences on a toy's value, consumer loyalty and products recognition. The global retail market for toys will be mainly driven by toy products branded with authorised intellectual properties with its growth at a CAGR of approximately 10.0% between 2018 and 2023, as compared to approximately 3.2% of the same for toy products not branded with authorised intellectual properties. We endeavour to gauge opportunities to design and develop popular products catering needs and interests of different age groups by understanding the latest global trend of customers' preferences. We identify car models or car brands, toy brands and entertainment characters with potential growth by following the latest popular car models, toy brands, animated television series or motion pictures. We also consider the market popularity of each of our co-branded products in the coming year to consider whether to renew the licensed rights of the car brands, toy brand and/or entertainment characters which we have been granted from licensors from time to time.

We have established strong standing relationships with renowned automobile manufacturers, toy brand licensor and entertainment character licensors, and we believe such relationships have fortified our market presence in the toy manufacturing industry, both globally and within the PRC. As at 31 December 2016, 2017 and 2018 and 31 August 2019, we entered into more than 20 licensing agreements with intellectual properties licensors. The revenue derived from the sale of co-branded products accounted for approximately 53.3%, 44.0%, 40.1% and 42.5% of our total revenue during the Track Record Period, respectively. As at the Latest Practicable Date, there were more than 20 subsisting licensing agreements entered into between us and our intellectual properties licensors.

With our previous track record, we believe that we can maintain our business relationship with intellectual properties licensors to sustain our business. We also believe our cooperation with intellectual properties licensors will continue to strengthen our market presence and our market position in the international markets.

We possess an experienced management team.

We are led by an experienced management team, which possesses extensive industry knowledge and has been instrumental to our development. Our senior management team is led by Mr. Yu and Mr. Pui, who have over 12 years and 20 years of experience in the toy manufacturing and sale industry, respectively. Mr. Yu is mainly responsible for formulating the overall development strategies, and financial and business plans of our Group, and managing (i) the technical research and development function which covers research and development and design; (ii) the production function which covers supply chain management, production material control, production and quality control; and (iii) marketing of our Group in the PRC. On the other hand, Mr. Pui is mainly responsible for managing the sales function, which covers sales, accounts management, branding and marketing of our Group. The dedication of our senior management team has contributed to the stability of our senior management, with our senior management staff working in our Group for at least two years. Most of our senior management members have experience in toy manufacturing and overseas trading. For further information on the experience and credentials of our management team, please refer to the section headed "Directors and senior management" in this prospectus.

We believe that our Directors and senior management team are capable of optimising our productivity and formulating and implementing strategic changes to capture market opportunities, which is a key to the continued success of our business.

BUSINESS STRATEGIES

With the aim of further developing our business and continuing our growth, we will implement the following strategies:

Continue to prioritise and focus on overseas market by (i) maintaining and strengthening relationship with our existing direct overseas customers; and (ii) expanding our customer base.

Maintain and strengthen relationship with existing overseas customers

We have established a diverse and extensive global customer base. During the Track Record Period, approximately 62.6%, 58.3%, 40.3% and 43.1% of our total revenue was derived from our sale of products exported to North America and Europe, respectively. With our dedication to product innovation, service quality, on-time delivery and competitive pricing throughout the years, we have maintained long term and stable business relationships with our overseas customers. For example, we have commenced business with a company that is traded under the name of the Renowned Multinational Retailer for at least five years. Our Directors believe that, through maintaining strong relationship with our overseas customers, it could help strengthen our customer base in PRC markets, as our Directors believe that our products will attract more PRC based customers as a result of the reputation and popularity of our products in overseas market. Due to the above reason, we aim to continue to prioritise and focus on overseas market as it could help expand our customer base in both overseas and the PRC.

We usually invite our overseas customers to visit our showroom in Hong Kong from September to October or provide our catalogue of our products to our overseas customers from January to February each year. Based on the expected market demand for our products estimated by them in the upcoming year, our overseas retailer customers usually give us an indication of their estimated purchase volume for the upcoming year in advance around first quarter of such year. In respect of our overseas wholesaler customers, we believe they would present our catalogue of our products to their respective customers to solicit their purchase orders of our products. Subsequently, they will negotiate the terms with us each time they place purchase orders of our products with us during the year. Our overseas customers generally would place bulk purchase order for our products around

March to May each year. As purchase orders placed by our overseas customers are generally more stable and predictable, we tend to continue to maintain and strengthen our relationship with them.

Expand our customer base in overseas market

Our target end customers usually purchase toys from comprehensive retailers and comprehensive toy specialty retailers. From our experience with our existing overseas retailer customers, our overseas retailer customers usually give us an indication of their estimated purchase volume for the upcoming year in advance around the first quarter of such year. Even though certain major toy retailers in the global market are our customers already, we intend to expand our retailer customer base in overseas market with a view to sell our products to different kinds of retailers, including online retailers. Apart from retailer customers, our overseas customers also consisted of wholesalers and ODM/OEM customers, including Dickie, during the Track Record Period.

As we plan to diversify our overseas customer base, we also plan to attract more brands in the global toy market to engage us for manufacturing products on ODM and OEM bases. With our dedication to quality control and safety of our products and our strong capability in product innovation and design, we have been negotiating with potential customers, such as a renowned Italian company that sells children's clothings and toys with retail outlets worldwide ("**Italian OEM Customer**"), a renowned company based in the U.S. that develops and markets novelty and impulse toys under different brands ("**US OEM Customer A**") and a renowned company based in the U.S. that designs, manufactures, markets and distributes toys worldwide under its own brands and licensed brands ("**US OEM Customers B**") as at the Latest Practicable Date. As at the Latest Practicable Date, two of them have commenced placing purchase order with us to engage us in manufacturing products on OEM basis. The value of the purchase orders placed by these two new overseas customers amounted to approximately HK$0.8 million and HK$2.5 million respectively during such period. When selecting potential customers, we review their creditability, their scale of operation and the destinations where products would be delivered to.

With limited production capacity during the Track Record Period, even though we tend to diversify customer base, much of the production capacity was utilised for manufacturing toy products for overseas retailer customers. We give preference to overseas retailer customers to satisfy their demand as (i) we tend to maintain strong relationship with these reputable customers which generate higher gross profit margin; and (ii) the purchase volume indication provided by some of them facilitate our planning in production schedule. As a result, to the best of our Directors' knowledge and belief, we were not able to fulfil all demand from wholesaler customers if our production schedule is occupied by the orders from our overseas retailer customers and we cannot meet the expected delivery schedule of our overseas wholesaler customers. Given the relatively higher gross profit margin generated from our sale to overseas customers and with a view to expand our customer base in overseas market, we plan to expand our production capacity to meet the demand from overseas wholesalers, please refer to the sub-paragraph headed "Expand our production capacity and improve our production efficiency" below for further details.

We have implemented various advertising and promotional activities to strengthen our brand portfolio and expand our market share, including participating in trade fairs. During the Track Record Period, our sales and marketing initiatives include attending the international toy fair in Nuremberg, Germany, which is the largest international trade fair for toys and games with more than 2,500 exhibiters from over 60 countries presenting their products, and attended by more than 70,000 trade visitors worldwide in 2019. Through attending toy fairs, we are able to get in touch with existing and potential customers. During the Track Record Period, we had 26, 19, 10 and 7 new overseas retailers, respectively, and 16, 8, 10 and 11 new overseas wholesalers, respectively. The overall number of our new overseas retailer and overseas wholesaler customers during the Track Record Period had decreased as (i) certain large scale and reputable overseas retailers, including Customer A, have been cooperated with us for considerable amount of time and we allocate our resources to maintain close relationship with our existing customers, thus the resources we had for developing business with new customers become lesser over the years; and (ii) the fluctuations in the number of new overseas customers during the Track Record Period was affected by the popularity and acceptance of our products, including the popularity of the licensed brands or entertainment characters of our co-branded products, by our new customers in each year. We intend to attend toy fairs that are organised in different areas in the U.S. and Europe in order to gather market intelligence and attract new overseas customers. Through keeping track of the latest global trend in toy products, we believe we will be able to sustain our strong capability in product innovation and design; and thus, our products will remain attractive to our existing and potential overseas customers.

As at 31 August 2019, we had 12 sales and marketing staff in Hong Kong. We intend to recruit six additional sales staff for Hong Kong office with at least three years of experience in selling toys during the year ending 31 December 2020. The expected monthly remuneration of sales staff in Hong Kong would be approximately HK$30,000 during the two years ending 31 December 2021. In view of the increase in scale of our operation and variety of our products, we intend to establish one more showroom in Hong Kong, near our existing showroom, with an expected monthly rental of approximately HK$100,000, during the year ending 31 December 2021 to display our toy products to our existing and potential overseas customers. By expanding our sales and marketing department in Hong Kong, we believe we will be more readily available to serve more customers with quality sales service.

In addition, we intend to expand our global market presence through (i) setting up sales offices in overseas market in the future, such as the US and Europe, where our major overseas customers are located at, so as to understand the local market demand better and expand our retailer customer base in those regions; and (ii) acquiring of or investing in downstream companies, including but not limited to wholesalers with established sales network in the target region, so as to create synergies with our product design and development and manufacturing capabilities. When considering potential acquisition or investment opportunities we will take into account factors including their geographical locations, sales network, whether they complement our operations, product design and development etc.. In particular, we will explore opportunities of acquisition regarding targets that (i) are located in Hong Kong or the US which focused on the overseas market; (ii) possess well-organised product development, operational and business development staff; and (iii) have considerable scale of operations and profitable business model, and will potentially provide investment return or additional revenue stream to us. As at the Latest Practicable Date, we had not identified any suitable target for such potential acquisition or investment. We will make announcement(s) in accordance with the applicable requirements of the Listing Rules as and when necessary. By expanding our overseas customer base, we believe we can expand our market share in the toy manufacturing industry.

We expect to utilise approximately 19.2% of the net proceeds from the Global Offering for the purpose of focusing on overseas market through (i) maintaining and strengthening relationship with our existing overseas customers; (ii) expanding our retailer customer base in overseas market; and (iii) expanding overseas ODM/OEM customer base, as well as strengthening, expanding and diversifying our customer base in the PRC as mentioned below.

Continue to strengthen, expand and diversify our customer base by focusing on (i) PRC Export-Oriented Wholesalers; and (ii) PRC retailers.

PRC Export-Oriented Wholesalers

Based on destination of delivery, a substantial amount of our total revenue was derived from our overseas sales, in particular from the U.S. and Europe during the Track Record Period. As the growth in toy markets in the US and European countries has slowed down, and taking into account of the Retailer's Liquidation, we are of the view that we need to expand our presence in the overseas market through the PRC Export-Oriented Wholesalers and in the PRC market through PRC retailer. Our Directors believe that the established relationship with our overseas customers would be one of the factors to help expand our PRC based customers, as our Directors believe that our products will attract more PRC based customers as a result of the reputation and popularity of our products in overseas market.

During the Track Record Period, we had sold products to the PRC Export-Oriented Wholesalers. We intend to expand and diversify our customer base with a view to sell our products ultimately to different kinds of retailers. In addition, we are of the view that we would be able to expand the overseas market through our sale to the PRC Export-Oriented Wholesalers. As wholesalers generally have conducted businesses with local retailers for many years, they usually have more bargaining power when dealing with local retailers and know how to sell products in a better way according to the CIC Report. As such, it would be a good solution for manufacturers to sell their products to wholesalers if they want to enter into new markets quickly. For further details, please refer to the sub-paragraph headed "Sales arrangement with wholesaler customers" under the paragraph headed "Our customers" in this section below.

PRC retailers

Apart from PRC Export-Oriented Wholesalers, we would also consider expand and diversify our PRC customer base through PRC retailers. According to the CIC Report, the market size of the PRC toy vehicle manufacturing industry in the PRC market experienced a steady CAGR of approximately 10.0% between 2014 and 2018 in terms of output value. It is expected that the market size of the PRC toy vehicle manufacturing industry in the PRC market will grow at a CAGR of approximately 9.3% between 2018 and 2023 in terms of output value. The increase in demand in the PRC market would affect the manufacturing industry in the PRC as a whole positively.

As at 31 August 2019, we had 19 sales and marketing staff in the PRC, we intend to recruit five additional sales staff for PRC office with at least three years of experience in selling toys during the year ending 31 December 2020. The expected monthly remuneration of sales staff in the PRC would be approximately RMB10,000 during the two years ending 31 December 2021.

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

We believe that our efforts in product development as well as obtaining additional licensed rights for our products are essential to our business strategy and enables us to enlarge our market share both internationally and locally within the PRC.

New product development

We strive to broaden our product offerings by continuously develop different styles and types of product. We also seek to further enhance our product development capability in toy products by devoting more resources to the design, and research and development of new products.

We aim to continuously capitalise the results of our market research, product design and development initiatives into successful commercialised products. We intend to strengthen our product development capability to cater for different preferences and needs of end customers of our products by way of (i) devoting more resources in market research to enhance our knowledge and predictions in latest global trends; (ii) enhancing our engineering and quality control functions by retaining and employing additional engineers and quality assurance personnel as well as strengthening quality standards and procedures; and (iii) deploying further resources in product design and development, including increasing our production and cost efficiency and thus boosting our profitability. By retaining and hiring experienced engineers and designers who possess relevant expertise and experience, they have contributed, and we believe they will continue to provide, valuable comments on the competitiveness of our products, so as to further enhance our future development. During the Track Record Period, we had developed, among others, (i) a toy racer that is able to run upside down along the track; (ii) a full function radio controlled stunt toy racer that is able to flip and spin at different angles; (iii) a full function radio controlled and amphibious toy car that is able to drive through water, dirt, mud, sands, pavement and grass; and (iv) a radio controlled interactive toy dinosaur that is capable of moving at different angles, making different expressions and emitting smoke. We intend to incorporate new functions and/or features into our products. The development of new functions and/or features would involve application design, prototype and moulding development costs. As at the Latest Practicable Date, we have been developing more than 20 new toy vehicles. We believe our continuous development of new products and new product functions and features will facilitate us to stand out from our competitors.

As at 31 August 2019, we had 85 design, research and development staff in both Hong Kong and the PRC, we intend to recruit 10 additional design, research and development staff, whereby additional core design, research and development staff would be required to have at least five years of experience in research and development, for the New Production Plant during the year ending 31 December 2020. The expected monthly remuneration of design, research and development staff would be approximately RMB15,000 for the two years ending 31 December 2021. Apart from recruiting more design, research and development staff, we also intend to acquire, among others, two three-dimensional printing machines and two three dimensional coordinate measuring machines. For further details regarding expected capital expenditure for the Planned Expansion, including acquisition of new machinery and equipment for research and development, please refer to the sub-paragraph headed "Expand our production capacity and improve our production efficiency" below.

Additional licensed rights

In order to enhance our market share in the toy industry and capitalise our diversified customer base, as well as our established relationship with intellectual properties licensors, we intend to diversify our product offerings and seek for new opportunities through obtaining more licensed rights from major automobile manufacturers, major toy brand licensors as well as entertainment character licensors for our products. Currently, our products co-branded with third party-owned intellectual properties are mainly featured in smart toy vehicles, smart interactive toys and traditional toys. According to the CIC Report, any toys that are designed and created based on authorised intellectual properties, such as car models, cartoons, films and games, are well received by children due to their intrinsic emotional needs.

Subsequent to 31 August 2019 and up to the Latest Practicable Date, we entered into a licensing agreements with two new renowned automobile manufacturers. By obtaining additional licensed rights, we believe that we will be able to continue increase our market share in the overseas market.

Expand our production capacity and improve our production efficiency.

During the Track Record Period, our Production Plants were strategically located in Shantou, Guangdong Province, the PRC. According to the CIC Report, the main toy manufacturing and export bases in China are Guangdong Province, Jiangsu Province, Shandong Province, Zhejiang Province, Fujian Province and Shanghai. Among them, Guangdong Province is the largest toy production base, while Chinese toy products' industrial clusters are mostly located in Chenghai, a district located in Shantou City, the Guangdong Province, the PRC. Chenghai in Shantou has been a manufacturing hub for the toy industry in the PRC, where toy wholesalers, traders and merchandisers from various regions in the PRC and overseas can find the most centralised and innovative toy manufacturers. Chenghai was awarded as "China Toys and Gifts City" by China Light Industry Association in 2013. Local manufacturers can (i) have easy access to technical talents and skilled workers for smart toys; and (ii) purchase raw materials and components needed for production more conveniently as these can be procured locally. When compared with other regions in China, Shantou enjoys a relatively lower labour costs in general. By continuing to expand our production bases in this region, our Directors believe that this will ensure that we possess the strength and capacity for future growth in the longer run and are able to take advantage of the low production cost and operating costs in the region. We believe it will be in the interest of our Group to expand our production capacity in anticipation of our continued growth.

For the eight months ended 31 August 2019, we had been running at over 90% of our full production capacity for manufacturing our smart toys and traditional toys. Thus, our ability to take on new business and orders have been limited. In order to expand our production capacity to accommodate the increasing demand from our customers and the potential demand from our business expansion, it is necessary to allocate more space and more machinery and staff for our production. As such, we have planned the Production Expansion to capitalise on the growing demand of smart toys as well as to increase our market share and strengthen our position in the toy manufacturing industry in the PRC. We have commenced preliminary construction work of the New

Production Plant since the last quarter of 2017. The New Production Plant should consist of manufacturing workshop, warehouse, office and staff dormitory with an expected total gross floor area of approximately 46,000 sq.m..

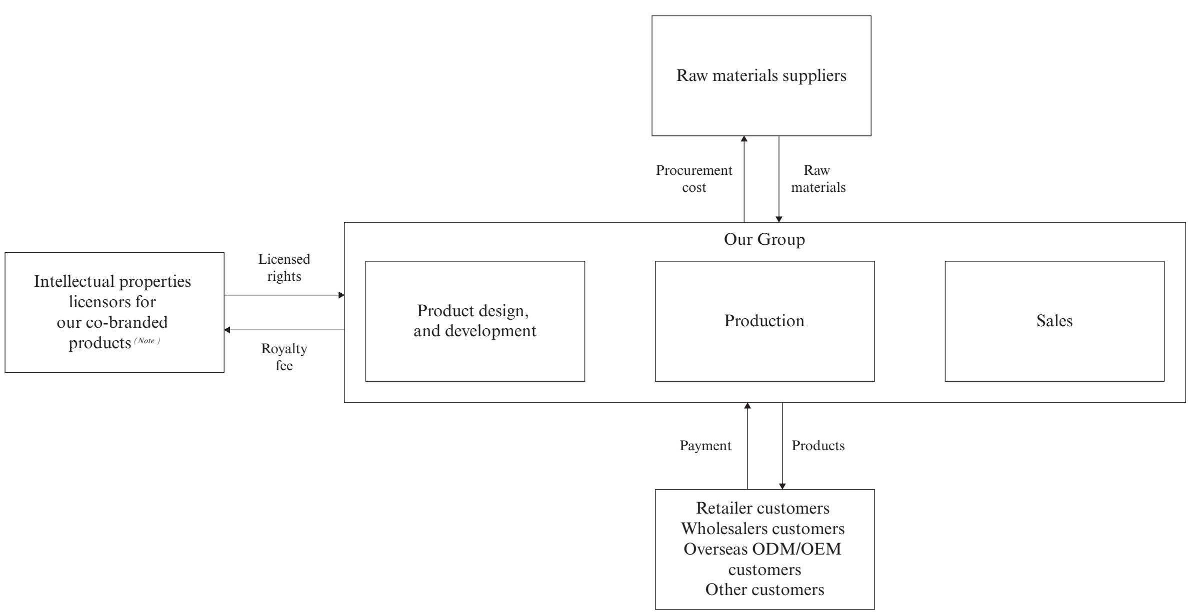
As advised by our PRC Legal Advisers, we have obtained the relevant requisite approvals from the relevant PRC authorities for the construction of the New Production Plant. It is expected that completion of the construction of the New Production Plant and the expected time of commencing commercial production will take place in or around the second quarter of 2020. A longer period of time to construct the New Production Plant is required, as (i) time is needed to comply with the new national and local policies implemented in 2018 and 2019, including (a) the Decision of the First Session of the Thirteenth National People's Congress on the State Council Institutional Reform Proposal (《第十三屆全國人民代表大會第一次會議關於國務院機構改革方案的決定》) issued by the NPC on 17 March 2018, the Notice on Issuing the Provisions on the Functions, Structure and Staffing of the Ministry of Natural Resources (《自然資源部職能配置、內設機構和人員編製規定》) published by the General Office of the CPC Central Committee and the General Office of the State Council (中共中央辦公廳和國務院辦公廳) on 1 August 2018, and the Notice of the General Office of the CPC Central Committee and the General Office of the State Council on the Adjustments to the Functions, Structure and Staffing of the Ministry of Housing and Urban-Rural Development (《中共中央辦公廳、國務院辦公廳關於調整住房和城鄉建設部職責機構編製的通知》) issued by the CPC Central Committee and the General Office of the State Council on 1 August 2018, all of which led to a delay in construction schedule as there had been restructuring of the relevant government departments which are responsible for handling our construction work; (b) the Notice on carrying out the Verification of the information and personnel information of construction companies on the "Three Repositories and One Platform" (《關於在"三庫一平台"開展建築業企業信息和人員信息核查工作的通知》) issued by the Department of Housing and Urban-Rural Development of Guangdong Province (廣東省住房和城鄉建設廳) on 26 July 2018, which imposed more conditions and requirements for us to fulfill by engaging and appointing a specific technical personnel dedicated to the construction of the New Production Plant as prescribed by the new legislation; and (c) the Notice on Issues Concerning the Implementation of "Smart Site (Real Name registration) Management System Platform" in Shantou (《關於實行"汕頭市智慧工地(實名制)管理系統平台"工作有關問題的通知》) issued by the Bureau of Housing and Urban-Rural Development of Shantou (汕頭市住房和城鄉建設局) on 28 February 2019, which required us to purchase a smart site (real-name registration) management system to meet the needs of advancing our project by setting up face recognition and other biometric technology equipments at the entrance to verify the identity of workers of the New Production Plant, which were related to construction work and construction management; and (ii) all construction projects in Shantou, including our New Production Plant, was suspended by the local government in 2019 to prevent the spread of dengue fever, a mosquito-borne viral infection, until appropriate measures had been implemented to prevent the spread of the disease.

Since we have implemented appropriate measures to prevent the spread of dengue fever, the construction of the New Production Plant has been resumed as at the Latest Practicable Date. As at 31 August 2019, we have 799 production staff in the PRC, we intend to recruit approximately 300 production staff for our PRC operations during the year ending 31 December 2020. The expected monthly remuneration of production staff in the PRC would be approximately RMB3,800 during the two years ending 31 December 2021. For further details regarding the Planned Expansion, please refer to the sub-paragraph headed "Production capacity expansion" under the paragraph headed "Production process and production facilities" below.

We believe we would be able to take more orders from both our existing customers as well as potential customers when we increase our production capacity, thus expand our market coverage in the future. The total estimated capital expenditure for the Planned Expansion is approximately RMB197.0 million in aggregate. We had already incurred approximately RMB80.8 million in aggregate on capital expenditure during the Track Record Period. The remaining estimated capital expenditure for the Planned Expansion amounts to approximately RMB116.2 million, of which approximately RMB79.1 million is expected to be satisfied with our internal resources and approximately RMB37.1 million is expected to be settled by the net proceeds from the Global Offering.

OUR BUSINESS MODEL

We principally design, develop, manufacture and sell high quality smart toy vehicles, smart interactive toys and traditional toys. Our products are (i) branded with our "kidztech" brand; (ii) co-branded with (aa) renowned automobile manufacturers, (bb) popular entertainment characters featured in animated television series or motion pictures, or (cc) toy brand owner; and (iii) branded under our overseas customers' brands, which mainly represent the products we manufacture on ODM and OEM bases and the products sold to our customers branded under their respective brands. The following diagram illustrates our business model:



Note: Not applicable for our products that are branded with our "kidztech" brand and our overseas customers' brands.

OUR PRODUCTS

Our products are broadly categorised into (i) smart toys, comprising smart toy vehicles and smart interactive toys; (ii) traditional toys; and (iii) smart hardware. The table below sets out the breakdown of our revenue by product type during the Track Record Period:

	For the year ended 31 December						For the eight months ended 31 August			
	2016		2017		2018		2018		2019	
	Revenue RMB'000	*%*	*Revenue RMB'000*	*%*	*Revenue RMB'000*	*%*	*Revenue RMB'000 (unaudited)*	*%*	*Revenue RMB'000*	*%*
Smart toys										
— Smart toy vehicles	171,967	80.4	219,220	84.6	218,120	78.3	119,440	80.0	135,617	64.5
— Smart interactive toys	22,753	10.6	15,555	6.0	19,659	7.0	9,943	6.7	19,381	9.2
Sub-total:	194,720	91.0	234,775	90.6	237,779	85.3	129,383	86.7	154,998	73.7
Traditional toys *(Note)*	19,305	9.0	24,410	9.4	34,500	12.4	16,646	11.1	52,182	24.8
Smart hardware	—	—	—	—	6,438	2.3	3,351	2.2	3,060	1.5
Total	214,025	100.0	259,185	100.0	278,717	100.0	149,380	100.0	210,240	100.0

Note: Approximately RMB17.8 million, RMB24.4 million, RMB34.5 million, RMB16.6 million and RMB50.3 million are derived from sale of traditional toy vehicles during the year ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2018 and 2019, respectively.

Smart toys

Smart toy vehicles

Our smart toy vehicles mainly comprise full function radio controlled toy vehicles, which are manufactured in different scales.

During the Track Record Period, most of our smart toys vehicles were co-branded products with renowned automobile manufacturers. We also manufacture under overseas customers' brands on OEM and ODM bases. The selling prices of our smart toy vehicles usually range from RMB20 to RMB600. The table below sets out details of some of our smart toy vehicles sold under our various sub-brands:

GEARMAZ

Scales: 1:12, 1:16, 1:26 and 1:43

General functions/features:
- Full function radio controlled or full function 4 multiple channel infra-red controlled
- Head lights installed on model cars
- Usually co-branded with renowned automobile manufacturers

TOPMAZ

Scales:	1:8, 1:10, 1:12, 1:14, 1:16, 1:24, 1:26, and 1:43
General functions/ features:	— Full function radio controlled with a range of 15 to 40 metres — Working suspension, i.e. a system of tires, tire air, springs, shock absorbers and linkages that connects toy car to its wheels and allows relative motion between the two — High speed of a range of 5 km/hour to 25 km/hour — Drifting performance — Realistic burnout effect — Amphibious toy vehicles — Lighting and sound effects — Usually branded with our "Kidztech" brand and co-branded with toy brand owner

ROLLERMAZ

General functions/ features:	— Full function radio controlled with a range of 15 metres or single function radio controlled with a range of 10 metres — Lighting effect — Realistic sound effect — Spinning or flipping action — Usually co-branded with toy brand owner

Smart interactive toys

Our smart interactive toys mainly comprise smart interactive playsets, activity toys and musical toys, and some of these toys which play music and contain play features are intended to stimulate the sensory development of children.

During the Track Record Period, most of these toys are sold under either (i) co-branded with popular entertainment characters featured in animated television series or motion pictures or toy brand owner; or (ii) our "kidztech" brand. The selling prices of our smart interactive toys usually range from RMB5 to RMB280. Pictures below are one of our smart interactive toys:

Traditional toys

According to the CIC Report, a traditional toy refers to any toy that needs to be moved manually by consumers and is usually a role play toy. Traditional toys include traditional toy vehicles, traditional educational toys, dolls and other traditional toys such as outdoor and sport as well as infant toys. During the Track Record Period, approximately RMB17.8 million, RMB24.4 million, RMB34.5 million and RMB50.3 million are derived from sale of traditional toy vehicles, respectively. Our traditional toys mainly comprise traditional toy vehicles, including pull back toy vehicles and inertia toy vehicles which are mainly designed for children aged one to three years or above. During the Track Record Period, most of these toys are sold under "kidztech" brand. The selling prices of our traditional toys usually range from RMB2 to RMB80. Pictures below are some of our traditional toys:

Smart hardware

In view of the rapid growth of smart hardware market, for the year ended 31 December 2018, leveraging our expertise in designing and manufacturing high quality radio controlled smart toy vehicles, we had commenced selling smart hardware, such as Bluetooth speakers. Our smart hardware were sold under our "kidztech" brand. The selling prices of our smart hardware usually range from RMB80 to RMB170. The picture below is our Bluetooth speakers:

In respect of our smart hardware, we are responsible for formulating product design, while the production thereof is subcontracted to Independent Third Parties.

OUR PRODUCT BRANDS AND LICENSING ARRANGEMENT

Our products are (i) branded with our "kidztech" brand; (ii) co-branded with renowned automobile manufacturers, popular entertainment characters featured in animated television series or motion pictures or toy brand owner; or (iii) branded under our overseas customers' brands, which mainly represent the products we manufacture on ODM and OEM bases and the products sold to our customers branded under their respective brands.

The following table sets out a breakdown of our revenue attributable to products under different brands during the Track Record Period:

	For the year ended 31 December						For the eight months ended			
	2016		2017		2018		2018		2019	
	Revenue RMB'000	*%*	*Revenue RMB'000*	*%*	*Revenue RMB'000*	*%*	*Revenue RMB'000 (unaudited)*	*%*	*Revenue RMB'000*	*%*
"kidztech" brand	80,367	37.5	80,852	31.2	144,572	51.8	72,960	48.9	103,517	49.2
Co-brand	113,971	53.3	114,104	44.0	111,641	40.1	64,598	43.2	89,300	42.5
Overseas customers' brands *(Note)*	19,687	9.2	64,229	24.8	22,504	8.1	11,822	7.9	17,423	8.3
Total	214,025	100.0	259,185	100.0	278,717	100.0	149,380	100.0	210,240	100.0

Note: Mainly represent overseas customers which engaged us on ODM and OEM bases and customers which we sold our products branded under their respective brands.

Licensed intellectual properties

We design and manufacture our co-branded products where we partner with reputable automobile manufacturers, toy brand licensor and entertainment character licensors. For the three years ended 31 December 2018 and the eight months ended 31 August 2019, approximately 53.3%, 44.0%, 40.1% and 42.5% of our total revenue was derived from the sale of co-branded products consisting of brands of renowned automobile manufacturers, toy brand owner and entertainment character owner, respectively. The target territory, product categories and sales channels of these co-branded products were sold in accordance with the respective licensing agreements. As at the Latest Practicable Date, we had obtained rights to develop and sell different co-branded products under different licensing arrangements on a global basis. Our co-branded products are typically sold to overseas customers, including toy-specialty chain stores, multinational mass market retailers and wholesalers.

We entered into licensing agreements with various renowned automobile manufacturers, major entertainment character licensors and toy brand owner, covering different jurisdictions, product category and sales channels. A majority of our smart toy vehicles are co-branded with renowned automobile manufacturers, and the success of such products is to a certain extent dependent on the market acceptance of such brands and the general demand for toy cars in the global toy industry. We have developed relationships with a number of reputable automobile manufacturers for at least seven years. As at the Latest Practicable Date, we had been granted licensed rights of renowned automobile brands under more than 20 licensing agreements with certain luxury vehicle brands. According to the CIC Report, luxury vehicle brands include Bugatti, Lamborghini, Pagani, Mclaren, Lykan Hypersport, Audi and Mercedes-Benz.

As our co-branded model toy vehicles have been well accepted in the overseas market, reputable toy brand licensor as well as entertainment character licensors subsequently initiated to grant us licensed rights of respective renowned toy brand and entertainment characters. A certain amount of our smart interactive toys are co-branded with popular licensed entertainment characters featured in animated television series or motion pictures, and the success of such products is to a certain extent dependent on the market acceptance of the entertainment characters which is in turn affected by the market acceptance and popularity of the movie and cartoon, the marketability of the merchandising items with licensed entertainment characters, and marketing and promotional activities initiated by the licensors. As at the Latest Practicable Date, we had been granted licensed rights of a reputable toy brand and five entertainment characters.

Our Group's business is therefore subject to, among others, the (i) demand of toy cars; and (ii) business cycle of the global animated entertainment industry and promotional campaigns undertaken by the licensed intellectual properties licensors. For further details, please refer to the sub-paragraphs headed "Our sale of co-branded products during the Track Record Period relied on the popularity and market acceptance of intellectual properties used in the co-branded products, which depends largely on the public reception on the brand and the entertainment characters of the intellectual properties licensors and the marketing and promotional activities of the intellectual properties licensors." and "We are specialised in the design, development, manufacture and sale of high quality smart toys, which mainly comprising smart toy vehicles. If the demand for smart toy vehicles does not achieve anticipated growth or even decrease, our business and results of operation would be materially and adversely affected." under the paragraph headed "Risks relating to our business" in the section headed "Risk factors" in this prospectus.

We select licensed rights of automobile brands and models that are known for popularity and evergreen as well as entertainment characters and toy brands that are known for popularity and age appropriateness. We leverage on the promotional and advertising activities carried out by the licensors in the promotional campaign of the intellectual properties licensors.

Licensing arrangements with intellectual properties licensors

Our licensed intellectual properties as at the Latest Practicable Date cover territories on a worldwide basis. We enter into licensing agreements with various licensors which allow us to design, manufacture and sell toy products for certain models of various automobile manufacturers, certain popular characters featured in animated television series or motion pictures, or certain toy brand, for sale within the designated territories. Under the licensing arrangements, the design, manufacturing and advertising of our products are subject to prior approval of our licensors, while royalty fee is usually charged by our licensors based on agreed percentage on total sales after deducting sales returns, with a guaranteed minimum amount. For the three years ended 31 December 2018 and the eight months ended 31 August 2019, we incurred royalty fee of approximately RMB12.1 million, RMB13.0 million, RMB13.7 million and RMB9.6 million, respectively.

We enter into licensing agreements with a number of major automobile manufacturers and entertainment character licensors to acquire the right to use their intellectual properties on the various series of our products. As at the Latest Practicable Date, there were more than 20 subsisting licensing agreements entered into between us and our intellectual properties licensors. The major terms of these licensing agreements generally set out duration of licences granted, licensed intellectual properties, product categories, geographical coverage, consideration (including royalty rates), payment terms, rights and obligations of respective parties, designated sales channels (if any), marketing commitment (if any), conditions and notice period of termination and renewal mechanism (if any). The table below sets out particulars of our major licensing arrangements (each of them accounted for over 3% of our total royalty fee during the eight months ended 31 August 2019) subsisting with our major intellectual properties licensors and the proportion of sales attributable to our products co-branded with them during the Track Record Period:

				% of total royalty fees				% of total sales of co-branded products attributable to intellectual properties licensor			
		Commencement of business relationship with us		Year ended 31 December			Eight months ended 31 August	Year ended 31 December			Eight months ended 31 August
Intellectual properties licensor	Description of intellectual properties licensor		Expiry date	2016	2017	2018	2019	2016	2017	2018	2019
The Famous Toy Brand Licensor	One of the top global toy brands, which is found in the U.S. and with its target markets located in Europe, Oceania, South America and Asia. According to the CIC Report, brands and products of the Famous Toy Brand Licensor include Fisher-Price, Barbie, Hot Wheels, American Girl, etc..	2015	31 December 2021	32.4	28.8	32.6	45.4	24.0	18.3	31.1	36.7
Luxury vehicle brand owner 1	A luxury vehicle brand, which is headquartered in Italy and specialised in luxury super sports car, and is ranked as a luxury vehicle brand in 2018 according to the CIC Report,	2011	31 December 2022	14.4	16.5	13.1	12.4	13.9	11.5	10.3	6.0
Luxury vehicle brand owner 2	A luxury vehicle brand, which is headquartered in France and specialised in super sports car, and is ranked as a luxury vehicle brand in 2018 according to the CIC Report.	2011	11 November 2020	7.3	13.4	10.2	11.9	9.3	10.7	8.0	6.7
Luxury vehicle brand owner 3	A luxury vehicle brand, which is headquartered in the US, and is ranked as a luxury vehicle brand in 2018 according to the CIC Report.	2009	30 June 2022	5.1	2.5	3.9	5.6	2.3	3.9	2.9	4.1
Motorcycle brand owner 1	A motorcycle brand, which headquartered in Italy	2017	31 December 2020	0.0	0.0	0.5	3.9	0.0	0.0	0.7	7.8
Entertainment character licensor	A company owns and manages products based on trademarked characters for children's entertainment, and offers its collection of toys and television programs worldwide	2016	31 December 2020	7.5	8.5	10.8	3.8	0.0	0.0	0.6	0.4
Luxury vehicle brand owner 4	A luxury vehicle brand, which is headquartered in the U.S. and specialised in trucks and sport utility vehicles, and is ranked as a luxury vehicle brand in 2018 according to the CIC Report.	2011	31 December 2020	6.4	5.2	5.1	3.3	10.7	8.4	6.6	5.0
Motorcycle brand owner 2	A motorcycle brand, which is headquartered in Japan	2013	30 November 2022	6.4	5.2	5.1	3.3	11.3	7.2	8.3	5.1

Our brand

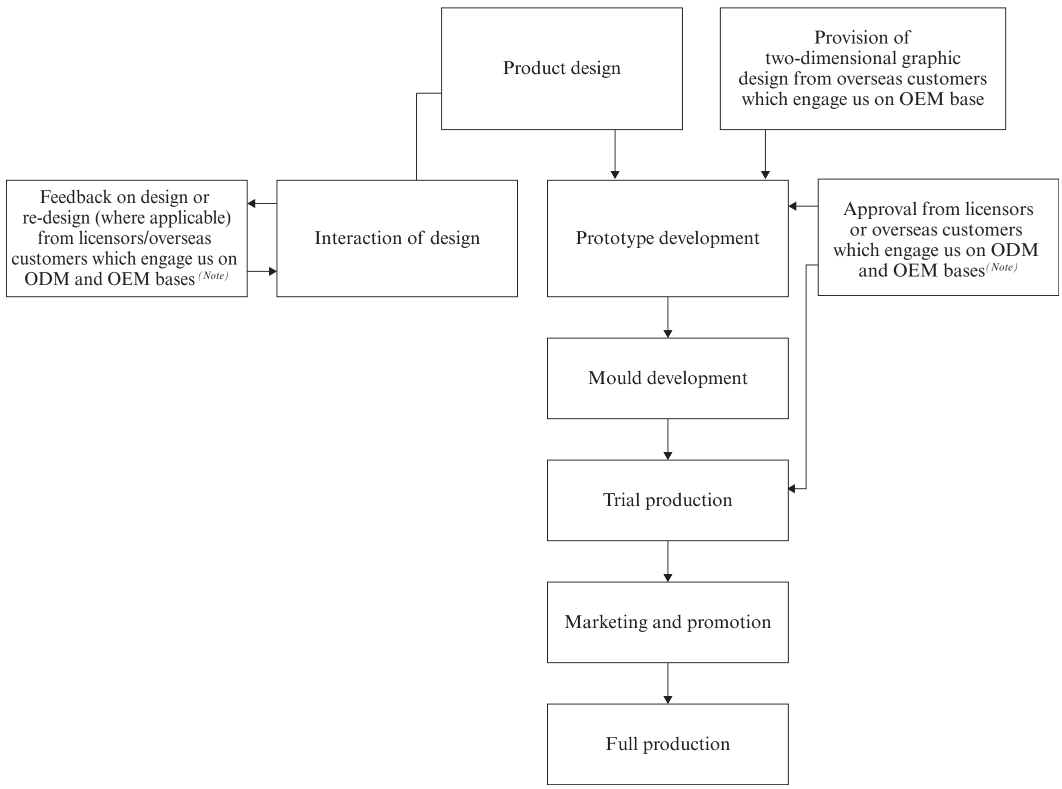
We have developed our "kidztech" brand since 2011 and subsequently our sub-brands, such as "TOPMAZ", since 2018, which we believe have gained its reputation for its high quality and creative design of the products over the years, in particular in the PRC. We have established the foothold of our "kidztech" brand by penetrating into different countries. Our "kidztech" branded products are sold in various retail chains such as multinational mass market retailers and toy specialty chain stores through our direct sales to our retailer customers and wholesaler customers both in the PRC and in overseas. For further details of our sale to various types of customer, please refer to the paragraph headed "Our customers" in this section below.

Customers' brands

Products under our customers' brands are mainly manufactured and sold to our overseas customers which engage us to manufacture on ODM and OEM bases and branded under our customers' brands. During the Track Record Period, we had four overseas customers which engaged us for the manufacturing of products under their respective brands under ODM or OEM bases. In addition, some of our overseas retailer customers, who usually purchase our "kidztech" brand or co-branded products, may occasionally purchase products that are designed and manufactured by us and requested such products to be branded under their respective brands. For products that are manufactured and sold on ODM basis, we would present to such customers the design and prototype of the products to be developed, with whom we would further discuss on the design, special features and adaptations which the relevant customer may desire. If the design is accepted by the relevant customer, manufacturing of such products would commence. On the other hand, for products that are manufactured and sold on OEM basis, the relevant customer would provide us the design and product specifications of their products, and we would commence production of such products once purchase orders have been placed. We intend to expand our overseas ODM and OEM customers base by attracting more overseas customers which would engage us on ODM and OEM bases in the future. To expand our customer base, we have been negotiating with companies that own and sell toys with different brands in the global toy market, such as the Italian OEM Customer, the US OEM Customer A and the US OEM Customer B to engage us for manufacturing products on ODM and OEM bases as at the Latest Practicable Date. Two of them have commenced placing purchase order with us to engage us in manufacturing products on OEM basis.

PRODUCT DESIGN AND DEVELOPMENT

In respect of our smart toys, we undertake design and development of products in-house to build a strong brand with strong capability in product innovation and design. Set out below are the typical processes involved in our product design and development process:



Note: Approvals from our intellectual properties licensors or our overseas customers which engage us on ODM and OEM bases are required for co-branded products or products produced on OEM or ODM bases, respectively, prior to commencement of mass production.

With our global exposure through our operation in Hong Kong, being the largest sales hub of toys worldwide, we are able to keep track of the latest global trend in toy products, thus our product designers in Hong Kong would formulate a desirable design of toy products, including the aesthetic outlook, features and functions thereof. After our design, research and development department in Hong Kong designs new products in two-dimensional graphics, our design, research and development department based in Shenzhen, the PRC, being the leading innovative city in China which is also known as "China's Silicon Valley" with abundance of research and development talents, and comprising product designers, and mechanical and electrical engineers, would formulate a three-dimensional design of such toy product based on the two-dimensional graphics prepared by our product designers in Hong Kong. In addition, a prototype would be built to test the functionality of such toy product. When the prototype is finalised, our production department in the Production Plants would develop a mould for such product and engage in trial production. Prior to marketing of such products to our customers, if such products are co-branded products or products produced on OEM or ODM bases, a final approval on the prototype, is required.

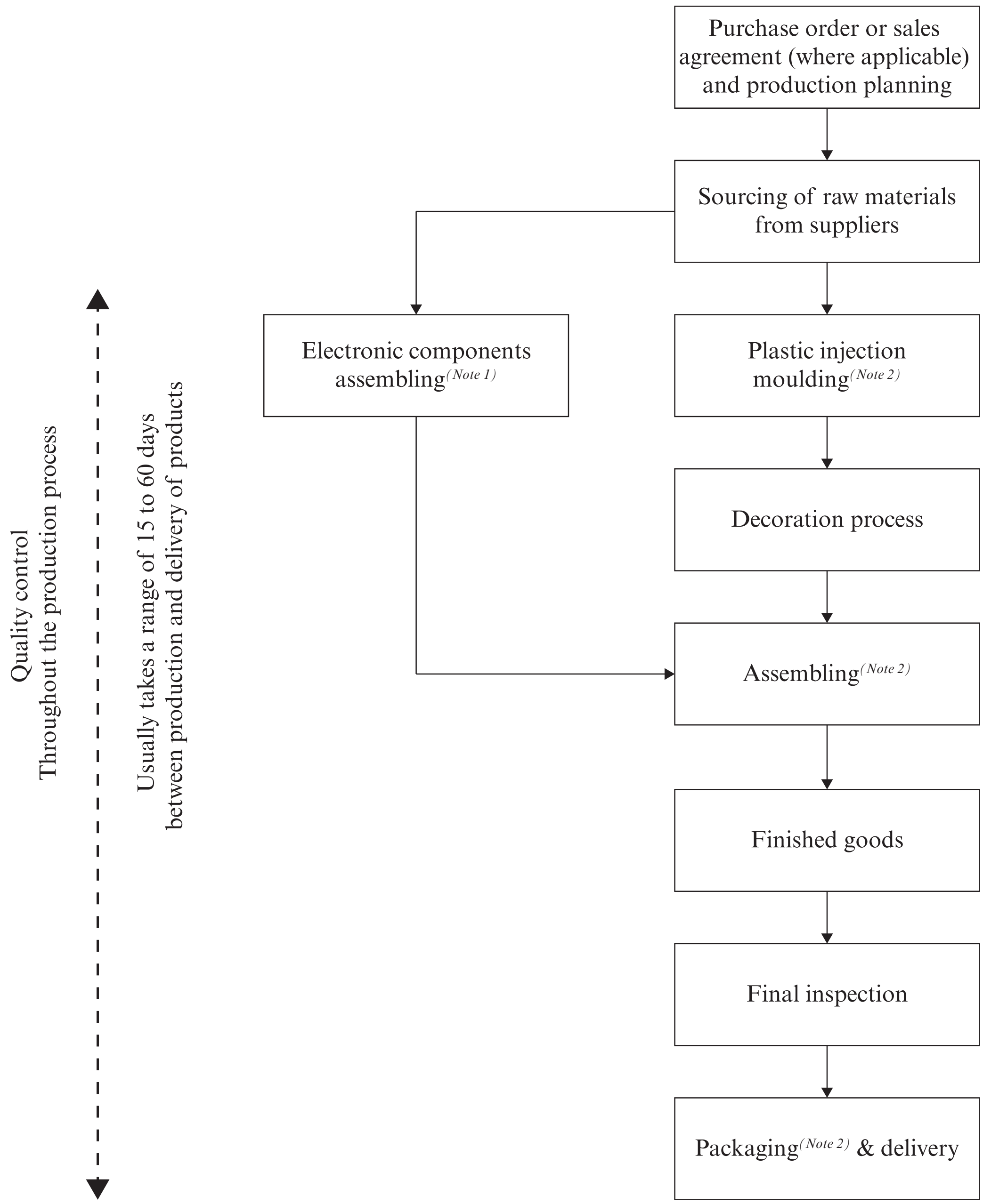
In respect of our co-branded products, in addition of seeking approval from the intellectual properties licensors, we showcase our prototypes of our upcoming new products to our existing and potential customers by inviting them to visit our showroom in Hong Kong each year. Our customers may provide comments on our prototypes. If so, we would revise such prototypes until our customers are satisfied.

In respect of marketing materials and company catalogue, our Group works closely with the intellectual properties licensors to finalise the design. Upon receipt of (i) final approval from intellectual properties licensors or our overseas customers which engage us on ODM and OEM bases on the design of co-branded products or products produced on OEM and ODM bases, respectively; and (ii) purchase orders from our customers, we would commence commercial production of our products.

During the Track Record Period, our testing and inspection fees incurred for product design and development process amounted to approximately RMB2.2 million, RMB1.2 million, RMB0.4 million and RMB80,000, respectively.

PRODUCTION PROCESS AND PRODUCTION FACILITIES

The following diagram depicts the typical workflow in our manufacturing process:



Notes:

1. Applicable for manufacturing of our smart toys.

2. When we did not have sufficient capacity at the relevant time, our Group subcontracted our plastic injection moulding, assembling and packaging to sub-contractors during the Track Record Period from time to time. For further details, please refer to the sub-paragraph headed "Arrangement with subcontractors" under the paragraph headed "Our suppliers" in this section below.

Manufacturing process

Purchase order or sales agreement (where applicable) and production planning, and sourcing of raw materials from suppliers

We usually invite our customers to visit our showroom from September to October or provide our catalogue of our products to our customers from January to February each year to cater the sales in upcoming year. Based on the expected market demand for our products estimated by them in the upcoming year, our overseas retailer customers usually give us an indication of their estimated purchase volume for the upcoming year in advance around first quarter of such year. In respect of our overseas wholesaler customers, we believe they would present our catalogue of our products to their respective customers to solicit their orders of our products. Subsequently, they will negotiate the terms with us each time they place purchase orders with us during the year. Our overseas customers would generally place bulk purchase order for our products around March to May each year. After that, our overseas customers may place purchase orders with us when they have additional demand from their respective customers. Our retailer and wholesaler customers in the PRC usually enter into sales agreements with us from time to time.

During each year, prior to placing orders with us, our customers may make preliminary enquiries with us, either verbally or through emails, as to whether we would be interested in taking their purchase orders of our products. Our customers may or may not indicate the estimated purchase volume and transaction amount during such preliminary enquiries. Given our large variety of products and our limited production capacity, it is more cost effective for us to arrange production after sales order is confirmed. Therefore, upon receipt of preliminary enquiry from our customers and prior to our customers placing purchase orders to or entering into sales agreement with us (where applicable), our sales and marketing department would usually liaise with our production department to evaluate whether we have sufficient resources, available manpower and production capacity to accommodate such order. If our production department finds we have sufficient production capacity to accommodate such order, our sales and marketing department would liaise with the relevant customer regarding details of such purchase order or sales agreement (where applicable), including but not limited to, delivery time of our products. If our production department finds we do not have sufficient production capacity to accommodate such order, we will inform our customers and decline such orders. During the Track Record Period and as at the Latest Practicable Date, we did not maintain a comprehensive record of declined orders. To the best of our Directors' knowledge and belief, we were not able to fulfill all demand from our customers during the Track Record Period if our production schedule was occupied already or we could not meet the expected delivery schedule of our customers.

When purchase orders are received from or sales agreements are entered with our customers (where applicable), based on details of the purchase order, such as product specification, delivery schedule, our available resources, available manpower and production capacity, our production department would prepare the production schedule. On the other hand, based on (i) details of the purchase order or sales agreement (where applicable), including quantity and types of raw materials required; and (ii) the amount of raw materials available in our inventory, our production department would decide whether to replenish any raw materials for such purchase order (where applicable).

Plastic injection moulding

Plastic injection moulding is a process that coverts plastic resins into different shapes, by melting and injecting plastic resins into the cavity of the plastic injection mould to produce plastic components of desired shape depending on the design and specifications of our particular products under production.

Decoration process

After the plastic injection moulding process, the plastic components will undergo decoration process, which mainly involves (i) spray painting; and (ii) pad printing. Depending on the surface and the patterns or characters to be printed on the final product, we may use the following different decorating techniques:

(i) spray painting — a painting technique where a spray gun sprays coatings of paint through the air onto the surface of the plastic components;

(ii) pad printing — a printing technique where colour paint is transferred from an etched printing plate onto a specified area of the plastic components by a rubber pad; and

(iii) label application — depending on the types of products, brand label may be applied on the products.

Electronic components assembling

It is applicable for manufacturing of our smart toys. Depending on the requirements of our customers and production specification, electronic parts would be processed for assembling with other components. Major steps involved are (i) insertion of electronic components such as resistors and capacitors on printed circuit boards; (ii) bonding integrated circuit to the circuit boards; and (iii) printed circuit board assembling, where electronic components and surface-mount components are mounted to the printed circuit board.

Assembling

After (i) plastic injection moulding and decoration process; and (ii) electronic components assembling, the relevant parts will be assembled together as may be required for the final product.

Final inspection of the finished products

Upon completion of the assembling of the final products, our quality control department conducts final inspection on the products on several aspects, including appearance, structure and safety standard. Staff of our quality control department will fill in an evaluation form if defects or flaws are found in finished products. Such products would be sent back to appropriate workstation for rectification, which would then go through the same inspection process by the quality control department again. Our quality control department will issue quality control reports after completion of the quality inspection process. For further details regarding our quality control procedures and requirements, please refer to the paragraph headed "Quality control" below.

Packaging and delivery

Upon production of all final products, such final products will be packed in accordance with the customers' specifications and stored in our warehouse prior to delivering them to our customers. Our PRC customers are normally responsible for the delivery cost of packaged final products. For overseas customers, we normally bear the delivery cost of packaged final products until the products reach the port of loading in the PRC, including the ports in Yantian and Shantou. Prior to delivery of our packaged final products to our customers, we will conduct sampling quality checking on our products to ensure the quality of our products is up to standard.

Production facilities

During the Track Record Period, we conduct our manufacturing process at our Production Plants. The following table sets out information of our Production Plants:

	Production Plant I	**Production Plant II**
Operation period:	Since March 2015	Since 2012
Total gross floor area:	Approximately 13,000 sq.m.	Approximately 20,000 sq.m.
Buildings:	One manufacturing workshop, warehouse, office and staff dormitory	One manufacturing workshop, warehouse, office and staff dormitory
Leased/owned:	Owned	Leased

For further details regarding the Production Plants, please refer to the paragraph headed "Properties" below.

Major machinery and equipment

We source our production equipment mainly from manufacturers in the PRC. We believe that the equipment we have purchased from these manufacturers had resulted in better quality products, higher efficiency and lower defect rates as these are reputable manufacturers in the PRC. Based on our experience, the average expected useful lives of our robotic arms machines, airpress machines, printing machines and plastic injection moulding machines are approximately ten years. As at the Latest Practicable Date, the current age of our key equipment for each of our robotic arms machines, airpress machines, printing machines and plastic injection moulding machines was approximately 3 to 10 years. The following table sets out the number of units of our key production equipment as at 31 August 2019:

Production equipment	**Number of units**	**Average age (approximate years)**	**Average remaining useful life (approximate years)**
Plastic injection moulding machines	72	3.5	6.5
Robotic arms machines	18	3.2	6.8
Airpress machines	4	2.8	7.2
Printing machines	34	4.4	5.6

We repair and maintain our production equipment by ourselves in general on a regular basis. As at the Latest Practicable Date, we had not experienced any material production interruption.

Production capacity and utilisation rate

The following table sets out the theoretical maximum production capacity, actual production time and average utilisation rate of our production facility for our smart toys and traditional toys during the Track Record Period:

	For the year ended 31 December			For the eight months ended 31 August
	2016	2017	2018	2019
Theoretical maximum production capacity (thousand hours)	236.0	323.8	367.0	270.9
Actual production time (thousand hours)	234.2	268.8	305.3	247.8
Average utilisation rate (%)	99.2	83.0	83.2	91.5

Notes:

1. Smart toys and traditional toys accounted for over 97% of our products in terms of revenue during the Track Record Period.

2. Our production capacity is measured in terms of hours of injection processed by plastic injection moulding machines in the production of our smart toys and traditional toys. We estimated our theoretical maximum production capacities based on the average number of our plastic injection moulding machines that operated during the relevant period, multiplied by the maximum working hours of 19 hours per day (after deducting the setup time required for each batch of production) and 303 working days per year (excluding days required for repair and maintenance and public holidays).

   Our total number of plastic injection moulding machines that operated increased from 41 as at 31 December 2016 to 78 as at 31 December 2017. During the year ended 31 December 2017, we acquired certain additional plastic injection moulding machines in June and these additional machines started operation gradually between July and December 2017. Our theoretical maximum production capacity in 2018 increased from that in 2017, mainly due to the additional plastic injection moulding machines purchased in 2017 have started full operation from December 2017. Our total number of plastic injection moulding machines that operated decreased to 66 as at 31 December 2018 as we disposed of certain plastic injection moulding machines which has been used for around 10 years in December 2018. Our total number of plastic injection moulding machines that operated increased to 72 as at 31 August 2019 as we acquired additional plastic injection moulding machines in December 2018 and the operation thereof only commenced in January 2019.

3. Utilisation rate is derived by dividing the actual production time during the relevant year/period by the theoretical maximum production capacity.

4. The annualised theoretical maximum production capacity for the year ended 31 December 2019 was approximately 414.5 thousand hours.

Production capacity expansion

Our existing Production Plants consist of two manufacturing workshops, two staff dormitories and offices. Apart from the existing Production Plants, we leased one property as warehouse and staff dormitories which amounted to approximately 15,000 sq.m.. We intend to terminate leasing such property after the New Production Plant is put into commercial use in or around the second quarter of 2020. Among these properties, the total gross floor area of manufacturing workshops at the Production Plants amounted to approximately 15,000 sq.m., covering our whole manufacturing process (i.e. from plastic injection moulding to packaging). Approximately 4,000 sq.m. of such area, housing 72 plastic injection moulding machines, is utilised for plastic injection moulding specifically, while the rest is utilised for decoration, assembling and packaging processes. As at the Latest Practicable Date, to the best knowledge of our Directors, there is no extra space in our Production Plants that can house (i) additional machinery and equipment for plastic injection moulding and decoration processes; and (ii) additional staff for assembling and packaging processes, to increase our production capacity. Since we have been running at a relatively high utilisation rate for manufacturing of our smart toys and traditional toys during the Track Record Period, we believe that our ability to take on new business and orders may be limited. As such, with a view to better serving our existing customers and expanding our customer base in anticipation of our continued growth, our Directors believe that it is important for our Group to plan ahead and it was necessary to expand our production capacity.

As we believe that our commitment to the high quality and safety of our products is key to our success and crucial to our future prospects, even though there is (i) an increase in the number of customers; and (ii) high demand from our customers during the Track Record Period, we ceased to engage subcontractors to provide assembling and packaging services and have undertaken such production processes since the second half of 2017, following the expansion in our production capacity between 2016 and 2017. We only outsource plastic injection moulding process to our subcontractors from time to time since then. As we (i) undertake the whole manufacturing process, from plastic injection moulding to packaging, for our smart toys and traditional toys; and (ii) try to minimise outsourcing any part of our manufacturing process to subcontractors in order to ensure our products are manufactured with the highest quality standards, we believe that we need more space not only for plastic injection moulding process, but also for decoration, assembling and packaging processes, in order to expand our production capacity. Therefore, we believe that the construction of the New Production Plant, being adjacent to our Production Plants, would create more room for our whole manufacturing process, including but not limited to plastic injection moulding, and increase our production capacity in an efficient and cost effective manner.

The following table sets out the breakdown of gross floor area of our existing Production Plants and the New Production Plant by manufacturing workshops, warehouse, staff dormitories and offices:

	Production Plants	New Production Plant
	(sq.m.)	*(sq.m.)*
Manufacturing workshops	15,000*(Note 1)*	18,000*(Note 2)*
Warehouse	9,000	13,000
Staff dormitories	8,000	9,000
Offices and administrative	1,000	6,000
Total	33,000	46,000

Notes:

1. Approximately 4,000 sq.m. of such area was utilised for plastic injection moulding.

2. Approximately 5,000 sq.m. of such area would be utilised for plastic injection moulding.

The New Production Plant would consist of one manufacturing workshop, covering our whole manufacturing process from plastic injection moulding to packaging, warehouse, office and staff dormitory with an expected total gross area of approximately 46,000 sq.m.. It is expected that the manufacturing workshop would take up approximately 18,000 sq.m., approximately 5,000 sq.m. of which would be utilised for plastic injection moulding.

In order to allow adequate production space for future expansion needs when demand builds up, we have commenced construction of the New Production Plant since the last quarter of 2017. The table below sets out details of, among others, our expected capital expenditure, expected theoretical annual production capacity after implementation of Planned Expansion and expected timeline:

Expected theoretical annual production capacity	Estimated capital expenditure*(Note 1)*	Commencement time of expansion	Expected time of completion of construction of the New Production Plant and commencement of commercial production*(Note 2)*
Approximately 788.7 thousand hours *(Note 3)*	RMB197.0 million	Last quarter of 2017	In or around the second quarter of 2020

Notes:

1. We have already incurred approximately RMB80.8 million on capital expenditure during the Track Record Period. The remaining estimated capital expenditure for construction of the Planned Expansion is expected to be paid during the year ending 31 December 2020 and 2021 by our internal resources and the net proceeds from the Global Offering.

2. The expected time of commencing commercial production for the production facilities at the New Production Plant is based on the best of our Directors' knowledge and belief taking into account their past experience, and is subject to the actual completion of construction of the New Production Plant.

3. The Group's expected theoretical annual production capacity represented the aggregate of (i) the theoretical annual production capacity of the Production Plants of approximately 414.5 thousand hours; and (ii) the theoretical annual production capacity of the New Production Plant, with 65 additional plastic injection moulding machines under full operation for a year, of approximately 374.2 thousand hours. Assuming that the 65 additional plastic injection moulding machines will be put into operation by stage from June 2020 according to the planned schedule for the implementation of the Planned Expansion in 2020, it is anticipated that our Group's total maximum production capacity, including both the Production Plants and the New Production Plants, may reach up to approximately 609.3 thousand hours per annum for the year ending 31 December 2020.

The following table sets out the breakdown of the total estimated capital expenditure for the Planned Expansion:

Usage	**Amount**
	(RMB million)
Construction of the New Production Plant	(i) *Already incurred*: 80.8
	(ii) *Estimated*: 49.2
	Subtotal: 130.0
Acquisition of machinery and equipment for production	*Estimated*: 62.0
Acquisition of machinery and equipment for research and development	*Estimated*: 5.0
Total	**197.0**

The following table sets out the type and number of key production machinery and equipment to be acquired by us for the implementation of the Planned Expansion and the respective budgeted cost thereof:

Machinery and equipment	**Number of units**	**Budgeted cost per unit**
Plastic injection moulding machines	65	Ranging from RMB165,000 to RMB470,000
Robotic arms machines	75	Ranging from RMB49,000 to RMB65,000
Airpress machines	5	RMB40,000
Printing machines	105	Ranging from RMB20,600 to RMB62,500
Smart printing production line, comprising 10 smart printing machines and 5 robots	1	RMB1,435,000

We plan to purchase 65 additional plastic injection moulding machines, 105 printing machines and majority of our additional robotic arms machines at one time in 2020 due to the following reasons: (i) with sufficient production facilities, our Group can formulate, manage and implement forward-looking plans such as products with innovative and complex designs, and we can have better overall planning on our research and development, production and sales activities for our future products, thus enhancing our overall production efficiency; (ii) we purchase and assemble most of the required equipment and machineries for our future production line in order to install, integrate and implement our overall production systems, including the installation of appropriate computer software systems and monitoring systems, so as to upgrade our overall production process; (iii) we can facilitate the enhancement of the automated production lines with the installation of our new purchases of robotic arms machines and to arrange future production planning; (iv) we can be more flexible in our production capacities as we can be prepared for any sudden surge in orders and would like to minimise outsourcing any part of our manufacturing process to subcontractors in order to ensure our products are manufactured with the highest quality standards with our own machines; and (v) we are being offered with a discount on bulk purchase.

We require 105 printing machines for the Planned Expansion as we expect our sales will continue to grow in future and our products will become more complex, attention-to-detail and diversified in the future, given our strong capability in product innovation and design. For further details, please refer to the sub-paragraph headed "Diversify our product offerings through continuous development of new products and global licensing strategy" under the paragraph headed "Business strategies" under the section headed "Business" in this prospectus. As such, we intend to acquire printing machines that are capable to produce more refined and better quality printing in order to match with our improving product design in future. Our Directors believe that new printing machines will also help enhancing our brand promotion through printing higher quality and colourful designs on our products.

We plan to acquire 75 robotic arms machines for the Planned Expansion as we intend to facilitate the enhancement of automatising our production line. Robotic arms machines could be installed to the existing and newly purchased plastic injection moulding machines and perform the production process automatically. As such, our overall production efficiency can be increased and labour costs can also be saved in long run.

It is expected that completion of the construction of the New Production Plant will take place in or around the second quarter of 2020. With 65 additional plastic injection moulding machines under full operation for a year, the theoretical annual production capacity of the New Production Plant is approximately 374.2 thousand hours. Assuming that the 65 additional plastic injection moulding machines will be put into operation by stage from June 2020 according to the planned schedule for the implementation of the Planned Expansion in 2020, it is anticipated that our Group's total maximum production capacity, including both the Production Plants and the New Production Plant, may reach up to approximately 609.3 thousand hours per annum for the year ending 31 December 2020 (the "**Expanded Production Capacity**"). These production capacity applying consistent calculation methodologies and assumptions as set out in the paragraph headed "Production capacity and utilisation rate" above. We do not expect the Expanded Production Capacity would be fully utilised immediately upon installation of the 65 additional plastic injection machines in 2020. To the best knowledge and belief of our Directors, it is expected that the Expanded Production Capacity would be utilised within three to five years after the year ending 31 December 2020.

Our plans for the Planned Expansion have been determined on the basis of, among other things, (i) estimated market demand for toy products, in particular smart toys, taking into account the expected growth in the global retail sales value of toy market from approximately US$90.4 billion in 2018 to approximately US$108.7 billion in 2023 according to the CIC Report; (ii) utilisation of existing manufacturing facilities; (iii) estimated cost of development; and (iv) availability and cost of sufficient capital resources. It is expected that the increased production capacity as a result of the implementation of the Planned Expansion will be used to capture the increasing demand for toy products, and thereby increasing our market share. It is also expected that with our additional production capacity, we will be able to meet more our existing and potential customers' demand.

According to the CIC Report, we ranked ninth in the domestic toy manufacturing market in the PRC in terms of revenue for 2018. In respect of smart toy vehicle manufacturing industry in the PRC, according to the CIC Report, we ranked second among the industry players in terms of sales revenue in 2018, and we are the largest non-listed private company and also the only player among the top 10 domestic toy manufacturers that manufactures with full ICTI certification on OBM, ODM and OEM bases in 2018. We are confident that we will be able to increase our market share with our increased production capacity following the Planned Expansion.

Our Directors expected that the Expanded Production Capacity would be utilised within three to five years after the year ending 31 December 2020, and our Directors are of the view that there shall be sufficient customers' demand to utilise our increased production capacity as a result of the implementation of the Planned Expansion based on the following reasons:

1. *Increase in the number of customers throughout the Track Record Period* — the total number of our customers increased from approximately 130 for the year ended 31 December 2016 to approximately 210 for the eight months ended 31 August 2019. We had 52, 33, 145 and 60 new customers during the Track Record Period. Such new customers contributed approximately 12.6%, 5.8%, 11.8% and 13.9% of our total revenue during the same period, respectively. With the increase in number of customers, the volume of work for our toy products also increased which was reflected in the increase in our actual production time. Our actual production time increased from approximately 234,200 hours for the year ended 31 December 2016 to approximately 305,300 hours for the year ended 31 December 2018. We had been negotiating with companies that own and sell toys with different brands in the global toy market to diversify and expand our overseas customer base. Subsequent to 31 August 2019 and as at the Latest Practicable Date, we had secured two additional overseas customers, namely the Italian OEM Customer and the US OEM Customer A. As it is one of our strategies to sustain, expand and diversify our customer base, it is expected that there will be an increase in the number of customers and subsequently the demand of our products going forward;

2. *High demand from our customers during the Track Record Period and going forward* — during the Track Record Period, we maintained a certain level of growth in revenue, at approximately 21%, 8% and 41% respectively, which reflected increasing demand from our customers with limited production capacity during the Track Record Period. To the best of our Directors' knowledge and belief, we were not able to fulfill all demand from our wholesaler customers if our production schedule is occupied by the orders from our overseas retailer customers as we give preference to them, and we cannot meet the expected delivery schedule of our wholesaler customers as a result. During the Track Record Period and as at the Latest Practicable Date, we did not maintain a comprehensive record of declined orders, we cannot quantify the value of purchase orders that we declined during the Track Record Period. In addition, the majority of our revenue was derived from sale of our co-branded products and "kidztech" branded products during the Track Record Period, which amounted to approximately 90.8%, 75.2%, 91.9% and 91.7% in aggregate, respectively. According to the CIC Report, as the global market has improved its confidence in quality of toys produced in China and fostered the growth in demand for co-branded toys and local branded toys produced in China, the output value of the PRC OBM toy vehicle manufacturing industry is expected to grow at a CAGR of 31.3% from 2018 to 2023, which is in line with the expected growth in revenue of our Group, although our historical growth of our revenue derived from sale of our co-branded products and "kidztech" branded products during the Track Record Period was below the industry expected growth rate as our historical growth was limited by our production capacity and schedule. As such, we anticipate that there will be continuous high demand of our products, in particular smart toy vehicles, in the global toy market going forward. Further, based on the signed non-legally binding memorandum of understanding with our customers (including some of our five largest customers during the Track Record Period), the sales orders received and the communication between our customers and us up to the Latest Practicable Date, our Directors are of the view that our sales will continue to grow in 2020;

3. *We have maintained long term business relationships with most of our customers* — as at the Latest Practicable Date, we had maintained long term business relationships with Customer A, Customer B and Customer C, which were our five largest customers during the Track Record Period, ranging from four to six years. Our Directors believe that we could maintain such long term relationship with most of our customers due to our dedication to quality control and safety of our products, and our strong capability in product innovation and design. As mentioned above, some of our five largest customers had sign the non-legally binding memorandum of understanding with us, it is expected that the sales order to be placed by our five largest customers to continue to grow in future with the support of our stable and long term business relationships;

4. *Relatively high utilisation rate throughout the Track Record Period* — during the eight months ended 31 August 2019, we had been running at over 90% of utilisation rate. As confirmed by our Directors, there were several occasions during the Track Record Period that our customers verbally enquired our management the feasibility to increase the purchase amount of our products. However, due to the relatively high utilisation rate, we were then not able to accommodate the increase in demand from our customers. Thus, there were several occasions during the Track Record Period where our customers could

have placed more purchase orders or have entered into more sales agreements with our Group (where applicable) should our production capacity be larger. Based on the expected growth in output value of the PRC toy vehicle manufacturing industry according to the CIC Report, and the high demand from our customers during the Track Record Period, the Planned Expansion is required in order to meet the expected increasing demand from our existing and potential customers. We expect to acquire additional units of plastic injection moulding machines which will be utilised for the manufacturing of our toy products to cope with the expected increasing demand from our existing and potential customers;

5. *Our strategy to enhance our market share* — it is one of our strategies to expand our customer base in overseas market. We have implemented various advertising and promotional activities to strengthen our brand portfolio and expand our market share, including participating in trade fairs. We also intend to recruit additional sales staff for Hong Kong office with experience in selling toys during the year ending 31 December 2020. For further details, please refer to the sub-paragraph headed "Expand our customer base in overseas market" under the paragraph headed "Business strategies" under the section headed "Business" in this prospectus. We also intend to expand our customer base in PRC market through PRC Export-Oriented Wholesalers and PRC retailers. For further details, please refer to the sub-paragraph headed "Continue to strengthen, expand and diversify our customer base by focusing on (i) PRC Export-Oriented Wholesalers; and (ii) PRC retailers" under the paragraph headed "Business strategies" under the section headed "Business" in this prospectus. Through enhancing our marketing initiatives, we expect to receive more demand for our products from existing and potential customers, which shall utilise the Expanded Production Capacity.

Taking into account our existing utilisation rate, the expected market growth and our strategy to capture further market shares by enhancing our sale to existing customers and new customers, our Directors are confident that the production capacity and utilisation rate would remain high upon completion of the Planned Expansion.

There is no guarantee that any of our expansion plans will proceed as planned. Our Directors may determine in the future that postponing any part of our expansion plans is in the best interest of our Group taking into account the prevailing market conditions, financial resources and other relevant factors.

With implementation of the Planned Expansion, our new production facilities at the New Production Plant will maximise our operational efficiency and to meet our business growth. Provided that we have sufficient demand and we can operate at the scale above the breakeven point as mentioned in the sub-paragraph headed "Payback period and breakeven points" below, our average unit cost for our products is expected to decrease as a result of the expected economies of scale. Therefore, we expect that there will be a positive impact on our profitability following commencement of commercial production under the Planned Expansion.

We plan to finance the remaining capital expenditure for the Planned Expansion with our internal resources and part of proceeds from the Global Offering. Please refer to the section headed "Future plans and use of proceeds" in this prospectus for further details on our expected use of proceeds for our expansion plans.

Payback period and breakeven points

For reference and illustration purpose only, set forth below is a highly hypothetical analysis on the payback period and breakeven points in respect of our new production facilities to be installed under the Planned Expansion.

We consider that a new plastic injection moulding machine, being the major production facility, achieves breakeven when the revenue it generated is able to cover its costs and expenses arising in the same year on an accounting basis. The production scale required to achieve breakeven varies depending on various factors, including but not limited to general economic and market conditions, market demands, utilisation rate of our production facilities, market competition and price of raw materials. We consider that a new plastic injection moulding machine achieves investment payback when the total future net cash flow generated from operating activities since the commencement of commercial production is able to cover the total investment amount. The time required to achieve investment payback varies depending on various factors, including those mentioned above and the capital expenditure such as costs of machinery and equipment.

With 65 additional plastic injection moulding machines under full operation for a year, the theoretical annual production capacity of the New Production Plant is approximately 374.2 thousand hours. Assuming that the 65 additional plastic injection moulding machines will be put into operation by stage from June 2020 according to the planned schedule for the implementation of the Planned Expansion in 2020, it is anticipated that our Group's total maximum production capacity, including both the Production Plants and the New Production Plants, may reach up to approximately 609.3 thousand hours per annum for the year ending 31 December 2020. For illustrative purpose, the following table sets out the detailed calculation of the estimated breakeven period and investment payback period for the additional production capacity under the Planned Expansion, based on the assumptions, including but not limited to (i) there will be no material change in the market, fiscal or economic conditions; (ii) we will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the business objectives relate; and (iii) there will be no material differences between the actual capital requirements for implementing the Planned Expansion and the amounts estimated by us:

Estimated breakeven period[(1)]:	Approximately one to two months
Estimated investment payback period[(2)]:	Approximately six years

Notes:

1. Estimated breakeven period refers to the length of time required for the New Production Plant to generate sufficient revenue to our Group to cover its operating costs and expenses for the first time since the date that we put the New Production Plant into commercial use. Revenue for the year ending 31 December 2020 is estimated with reference to the historical growth trend during the Track Record Period and the revenue to be allocated to the New Production Plant is based on the number of additional plastic injection moulding machines to be installed in the New Production Plant against the total number of plastic injection moulding machines that we have. Operating costs and expenses to be incurred in the New Production Plant for the year ending 31 December 2020 are estimated with reference to their respective proportion as to revenue during the Track Record Period.

2. Estimated investment payback period refers to the length of time required to recover the initial investment costs of the New Production Plant, including the acquisition costs of machinery and equipment and construction costs of the New Production Plant, from the accumulated net cash inflow to be generated from the New Production Plant since the date of the commencement of its commercial production. Revenue and operating costs and expenses to be generated and incurred by the New Production Plant are estimated with reference to the historical growth trend and their respective proportion as to revenue during the Track Record Period, respectively.

POTENTIAL IMPACT OF COVID-19 ON OUR OPERATION IN THE PRC

Background

Beginning early 2020, the PRC and certain countries around the world encountered an outbreak of COVID-19, a highly contagious disease. In response to severity of the COVID-19 outbreak, the Chinese officials have extended the Lunar New Year holiday by three days in the PRC to 2 February 2019. Based on the Notice on Enterprise Resumption of Work and School Start Time ("**Notice on Enterprise Resumption of Work**") (《廣東省人民政府關於企業復工和學校開學時間的通知》) issued by the People's Government of Guangdong Province on 28 January 2020, businesses in Guangdong Province have been ordered to remain closed until 10 February 2020. As at 30 January 2020, the World Health Organisation declared global emergency. Many airlines have suspended flights to the PRC as at the Latest Practicable Date.

The Production Plants are located in Shantou City, Guangdong Province, the PRC which is one of the areas in the PRC that encountered an outbreak of COVID-19. As at the Latest Practicable Date, quarantine orders were issued by the relevant local governments to impose travel restrictions in Wuhan in Hubei Province, Beijing and around 80 cities in the PRC to prohibit entry and exit of individuals into and out of such respective cities fully or partially and/or restrict their respective residents' movements within such areas.

As at the Latest Practicable Date, the PRC government has implemented various measures to combat against the outbreak of COVID-19 in the PRC, including but not limited to, temporary suspension of work in Shanghai, Suzhou, Guangdong Province, Zhejiang Province, Jiangsu Province and Yunnan Province with extension of the Lunar New Year holiday, quarantine order to restrict entry and exit of Wuhan, restriction of the number of individual and number of times leaving each household per day etc.. On 17 February 2020, the Guiding Opinion on Scientific Prevention and Control of Accurate Policy Division and Classification to prevent and control of the Novel Coronavirus Disease (《關於科學防治精准施策分區分級做好新冠肺炎疫情防控工作的指導意見》) ("**Guiding Opinion**") was published by the Joint Prevention and Control Mechanism of the State Council (國務院聯防聯控機制). Under the Guiding Opinion, relevant government authorities at county level in the PRC are required to formulate specific measures to prevent and control the outbreak of COVID-19 in such area. With the strengthened policies to control the outbreak of COVID-19, it is anticipated that businesses and daily life of citizens can be resumed to normal.

With the measures implemented by the PRC government and information currently available to our Directors, our Directors believe that the outbreak of COVID-19 shall not have a permanent impact on our Group and may only affect our Group temporarily. The potential impact of COVID-19 on our Group's operations in the PRC as discussed here and below is prepared according to the best estimate and belief of our Directors, based on latest information currently available to our Directors as at the Latest Practicable Date, subject to development of the outbreak of COVID-19 in the PRC.

Number of employees of production department to resume work

During the Track Record Period, our Group's production and sales have been affected by seasonality with less production taking place during the first quarter of each year, whereby the actual workforce required for our Group's production during such period, is less than the actual workforce required for our Group's production during the peak season, being between June and December each year, in general. Since the Lunar New Year usually takes place in January or February each year, the Lunar New Year covered our slack season during the Track Record Period. During the Track Record Period, it has been our normal practice to have a prolonged Lunar New Year holiday where we usually resume operation in the PRC, including manufacturing, and start recruiting workers for manufacturing, at around 15th day of the Lunar New Year each year.

Even though the government officials in Guangdong Province extended the Lunar New Year holiday in 2020 until 9 February 2020 due to the outbreak of COVID-19, as it has been our normal practice to resume operation in the PRC at around the 15th day of the Lunar New Year each year (the 15th day of the Lunar New Year of 2020 being 8 February 2020), the date of the resumption of our operation has not been materially affected by the prolonged Lunar New Year holiday as announced by the government officials in Guangdong Province and we have resumed operation in the PRC since 10 February 2020 (being the 17th day of the Lunar New Year of 2020).

As at the end of February of each year during the Track Record Period, being the time upon approximately half a month to one month after the 1st day of Lunar New Year each year, there were 329 full-time employees who are responsible for production ("**Production Staff**") on average. Based on the past experience, it usually takes approximately half a month to one month after the Lunar New Year each year for (i) the Production Staff to travel from their respective home town after the Lunar New Year Holiday to our Production Plants and resume work; and (ii) our administration and human resources department to perform the hiring and administrative process and recruit new production staff. As at 24 February 2020, we had 253 Production Staff at our Production Plants and our Group was in the process of recruiting new production staff. As some of the Production Staff is originated from Shantou City, Guangdong Province ("**Shantou-Originated Production Staff**"), without any material transportation issue or travel restriction, they can resume to work at our Production Plants despite the COVID-19 outbreak. In terms of the rest of the Production Staff, who is originated from other provinces and regions in the PRC ("**Other Areas-Originated Staff**"), since local governments of many provinces across the PRC have implemented travel restrictions as part of the measures to curb the spread of the COVID-19, some of the workforce has been unable to resume to work as at the Latest Practicable Date.

In light of the above, our Group is prepared to employ more local workers from Chenghai, Shantou City, Guangdong Province, to avoid material disturbance on the production schedule. As aforementioned, local individuals in Shantou are not subject to any material transportation restrictions within the area, we will recruit the local workers through ourselves and through the local recruitment agents. Also, according to the CIC Report, Guangdong is one of the largest toy production bases in the PRC, in which industrial clusters of the PRC plastic toy products are mostly located in Chenghai, one of Guangdong's districts, which is famous and called as "Toys and Craft City". At present, Chenghai commands a well-trained and diverse electric and smart toy personnel base as well as skilled workers from various regions of the PRC and overseas. As (i) our Group believes it offers better remuneration package to our workers, as compared to other manufacturers in Chenghai; and (ii) there is a well-trained and diverse electric and smart toy personnel base as well as skilled workers in Chenghai, our Directors are of the view that we should be able to recruit more local Production Staff by the end of first quarter of 2020.

Inventory available

With the prolonged Lunar New Year holiday as announced by the government officials in Guangdong Province in 2020, there may be delay in delivery of raw materials from our suppliers in the PRC. As most of our major suppliers are located in the Guangdong Province and we have various suppliers for same type of raw materials, even if some of our suppliers were unable to resume operation and/or unable to deliver their products to us in a timely manner, our Directors are of the view that we would be able to find replacement of supplier. In addition, considering the inventory of our Group's raw materials and work in progress as at 31 December 2019, even with the delay in delivery of raw materials from our Group's suppliers in Guangdong Province, as our Group's production and sales have been affected by seasonality with less production taking place during first quarter of each year, our Directors are of the view that the raw materials and work in progress in stock as at 31 December 2019 should be sufficient for our Group's operation during the first quarter of 2020.

Seasonality and production capacity

Since our Group's production and sales have been affected by seasonality, our Group's production cost in the first quarter of each year contributed only approximately 18% of the total production cost in average for the whole year between 2017 and 2019. Even though our Directors considered that the production schedule or volume in the first quarter of 2020 would be affected due to the COVID-19 in the PRC and the delay in resumption of work of Production Staff, our Directors consider that the impact of such delay on our Group's production capacity and thus delivery of products to our customers should not be material as to the financial performance for the year ending 31 December 2020, as (i) the first quarter of each year was usually the slack production season during each year, whereby the actual workforce required for our Group's production during such period, is less than the actual workforce required for our Group's production during the peak season, being between June and December each year, in general; (ii) our Group should be able to recruit more local Production Staff by the end of first quarter of 2020 as above-mentioned; and (iii) inventory availability as mentioned in above. In addition, our Group plans to purchase additional robotic arms machines in 2020 as part of our Production Expansion which can, among others, facilitate the enhancement of the automated production lines. With such automated production lines, it is expected that our Group would be able to enhance its production efficiency with less reliance on its labour force. Therefore, even if the number of Production Staff by the end of first quarter of 2020 may not match with the historical pattern, our Directors believe that our Group's production capacity in 2020 would not be affected materially.

As at the Latest Practicable Date, the implementation of the Planned Expansion, including the construction of the New Production Plant, was on schedule.

Delivery of products

During the Track Record Period, we delivered our products to customers according to the delivery schedule as set out in the purchase orders or sales agreements (where applicable). There is no specific compensation clause in relation to the delay in delivery as set out in the purchase orders or sales agreements (where applicable) with our customers. However, as we have contractual obligations to deliver our products as per the delivery time as set out in the relevant purchase orders or sales agreements (where applicable), delay in delivery of our products to our customers would constitute as a breach of the purchase orders or sales agreements (where applicable) and our customer(s) may claim damages against us. For further details, please refer to the sub-paragraph headed "The recent outbreak of the contagious COVID-19 in the PRC and worldwide may have a material adverse effect on our business, results of operation, financial condition and prospects." under the paragraph headed "Risks relating to our business" under the section headed "Risk factors" in this prospectus.

However, having considered that:

(i) we have resumed operation (including manufacturing, delivery of products and sales) in the PRC since 10 February 2020;

(ii) there was sufficient inventory of our Group's raw materials and work in progress as at 31 December 2019 which should be sufficient for our Group's operation during the first quarter of 2020;

(iii) we would be able to find replacement of suppliers as disclosed in the sub-paragraph headed "Inventory available" above;

(iv) we prepared to employ more local workers from Chenghai, Shantou City, if there is insufficient Others Areas-Originated Staff resuming work, to avoid material disturbance on the production schedule;

(v) for our products which required our delivery, we are normally required to deliver our products to areas within Guangdong Province, including to deliver our products to the ports in Yantain and Shoutou for overseas sales;

(vi) we would only accept purchase orders or sales agreements (where applicable) from our customers after taking into account whether we have sufficient resources, available manpower and production capacity to accommodate the requirements and the delivery schedule of our customers, whereby we have taken into account of the latest development of the outbreak of COVID-19;

(vii) there was no material delay in delivery of our products to our customers during the Track Record Period;

(viii) even if there had been any delay in delivery of products to our customers, through the communication and negotiation with our customers for the re-arrangement of the delivery schedule, we did not experience any material litigation, claims from our customer during the Track Record and as at the Latest Practicable Date; and

(ix) subject to the development of the COVID-19, should there be a chance of delay in the delivery of our products to our customers, we would liaise with our customers such issue as soon as possible in order to minimise the damages that our customers may suffer from, including exploring different ways of logistics arrangement and the possibility of both parties agreeing on a later date for delivery,

our Directors believe that we had various measures and plans in order to mitigate the impact of the outbreak of COVID-19 on our operation and delivery schedule of our products and considered that the abovementioned measures and plans can mitigate the risk that our clients will claim damages against us as a result of any delay in delivery of our products due to the outbreak of COVID-19.

As at the Latest Practicable Date, the delivery schedule of most of our purchase orders or sales agreements (where applicable) from our customers on hand would take place in March 2020. According to the best estimate and belief of our Directors, based on latest information currently available to our Directors as at the Latest Practicable Date, given that (a) we have resumed operation (including manufacturing, delivery of products and sales) in the PRC since 10 February 2020; (b) there was sufficient inventory of our Group's raw materials and work in progress as at 31 December 2019 which should be sufficient for our Group's operation during the first quarter of 2020; (c) we are normally required to deliver our products to areas within Guangdong Province; and (d) there has not been any material disturbance in delivery of our products to our customers since 10 February 2020 and as at the Latest Practicable Date due to the outbreak of COVID-19 in the PRC, and subject to (i) there would not be any material disturbance of our operation, including production, during the rest of the first quarter of 2020; and (ii) the development of the outbreak of COVID-19 in the PRC, we are of the view that we shall be able to deliver our products to our customers on time during the first quarter of 2020.

As at the Latest Practicable Date, we have only resumed operation in the PRC for a short period of time, and our operation in the PRC is subject to further development of the outbreak of COVID-19 and government advice or restrictions. Accordingly, it is too early to gauge whether there will be an impact of any significance on our Group's operation at this stage.

Our Directors will continue to assess the impact of the COVID-19 on our Group's operation and financial performance and closely monitor our Group's exposure to the risks and uncertainties in connection with the epidemic. We will take appropriate measures as necessary and inform our Shareholders and potential investors as and when necessary.

Sensitivity analysis

The following sensitivity analysis illustrates the impact of the following hypothetical scenarios on our revenue, profit before tax, profit after tax and adjusted net profit for the eight months ended 31 August 2019, assuming (i) the outbreak of COVID-19 took place during the eight months ended 31 August 2019; (ii) the actual production value of our Group during the first month ended 31 January 2019 remained unchanged; (iii) the actual production value of our Group between February and June 2019 would be affected in proportion to number of Production Staff who would be able to resume work according to the relevant scenarios below; (iv) the outbreak of COVID-19 would be contained no later than the end of second quarter of 2019; (v) there is no change in the seasonality of our Group's sales and production as disclosed above, and the actual workforce required for our Group's production during the first and second quarters of 2019, being the slack season of our Group's sales and production, is less than the actual workforce required for our Group's production during the peak season, being between June and December each year; (vi) all fixed costs, including but not limited to depreciation and amortisation expenses, rental expenses, remained unchanged; and (vii) other factors were to remain unchanged.

The below analysis of hypothetical fluctuations on historical financials is based on various assumptions which may not be accurate, is for illustrative purpose only and should not be viewed as actual result.

Scenario one:

(i) During the first quarter of 2019, approximately 30% of all actual workforce in February and March 2019 are not able to resume work, resulting our Group's actual production value reduced to approximately 70% during February and March 2019; and

(ii) During the second quarter of 2019, all actual workforce between April and June 2019 are able to resume work, without disruption to our Group's actual production value during such period.

For the eight months ended 31 August 2019	**Decrease by**	**Figures under scenario one**
	RMB million	*RMB million*
Revenue	(12.5)	197.8
Profit before tax	(3.6)	33.3
Profit after tax	(2.7)	25.0
Adjusted net profit	(2.3)	30.0

Scenario two:

(i) During the first quarter of 2019, approximately 60% of all actual workforce in February and March 2019 are not able to resume to work, resulting our Group's actual production value reduced to approximately 40% during such period; and

(ii) During the second quarter of 2019, 30% of all actual workforce between April and June 2019 are not able to resume work, resulting our Group's actual production value reduced to approximately 70% during such period.

For the eight months ended 31 August 2019	Decrease by	Figures under scenario one
	RMB million	*RMB million*
Revenue	(48.7)	161.6
Profit before tax	(15.1)	21.9
Profit after tax	(11.3)	16.4
Adjusted net profit	(10.9)	21.4

Our Group's contingency plan in response to the COVID-19

In light of the foregoing and as a result of our Group's implementation of various measures, including but not limited to, (i) recruitment of more local workers from Chenghai, Shantou City, Guangdong Province; (ii) replacement of raw materials suppliers (if necessary); and (iii) suspend employing individuals who are originated from Hubei Province, to combat and prevent the spread of the COVID-19 within the premises of our Group. Based on the best estimate and belief of our Directors and the latest information currently available to our Directors, it is expected that we may incur additional costs in hiring workers by approximately RMB0.6 million for the year ending 31 December 2020, of which approximately RMB0.3 million for engaging recruitment agents and approximately RMB0.3 million for placing advertisement for recruitment.

We have implemented various measures to combat the outbreak of COVID-19 within our premises, including but not limited to, (i) distribution of surgical mask and relevant sanitising products to each employee; (ii) implement temperature measurement for all employees each day before their entrance of our premises; (iii) prohibition of entrance into our premises by any individual who does not wear mask and/or has any symptoms of COVID-19; and (iv) frequent sterilisation within our premises. With the best estimates and belief of our Directors and based on the latest information currently available to our Directors, it is expected that we may incur also additional costs by approximately RMB0.6 million for the year ending 31 December 2020 to purchase surgical masks and relevant sanitising products for our employees.

As at the Latest Practicable Date, we had surgical mask in stock that would be sufficient for our staff's usage for approximately two months and we would use our best endeavour to acquire more surgical masks in order to ensure there are sufficient surgical masks for our usage.

QUALITY CONTROL

We believe that our commitment to the high quality and safety of our products is key to our success and crucial to our future prospects. As we focus on manufacturing smart toys for children aged three or six years or above, and traditional toys mainly for children aged one to three years or above, we place strong emphasis on product quality and safety by implementing a comprehensive quality control system in order to maintain our competitive edge.

In many countries, in order to prevent accidents, toy products must be able to pass safety tests prior to their sales thereof. To ensure manufacturing processes are performed to the highest quality standards, we have obtained, among others, ICTI certification, Supplies Compliance Audit Network (SCAN) certification, Global Security Verification (GSV) certification and Business Social Compliance Initiative (BSCI) certification. During the prototype development process, we conduct quality engineering procedures to test the safety standards of our designs and product samples according to our customers' specifications and the international safety standards. Our customers would also perform factory audit in the Production Plants from time to time, which we had satisfactorily passed during the Track Record Period. In addition, as a majority of our products are sold to overseas market, we are obliged to comply with the relevant safety standards as required by the importing countries of our products, for instance, requirement under the American Society for Testing and Materials (ASTM) (F963) Toy Standard in the U.S., and requirement under the European standard EN71 which specifies safety requirements for toys sold in the European Union.

We also have a dedicated quality control department comprising 46 staff as at 31 August 2019 responsible for implementing our stringent quality control measures in selecting our raw materials, packaging materials as well as throughout the production process.

Quality control of raw materials

We conduct quality control inspection on our incoming raw materials in order to ensure the quality and safety of our raw materials meet the prescribed standards of our Group and conform to our licensors' and customers' requirements.

Raw materials and parts sourced from suppliers are required to go through an incoming material quality control procedure (the "**IQC**"). Upon delivery of raw materials by our suppliers, our IQC team will conduct random sampling on basic raw materials, such as plastic resins, based on Acceptance Quality Limit II standard before they are stored in our warehouse, while our IQC team will conduct random sampling inspection on each batch of electric parts that we source from suppliers to test the appearance and functionality of such electric parts. Once the raw materials passed our IQC test, they will be labelled as having passed the test and be stored in our warehouse.

Quality control during the production process

During production, to ensure that our products comply with the specifications and are free from defects, our input process quality control team (the "**IPQC**") carry out inspections at each stage of the production process. Our IPQC team will conduct sampling inspection on our semi-finished products at each stage of the whole mass production process from time to time. For our plastic components, we will conduct sampling inspection with metrics include hardness, consistency, appearance, size and compatibility with other plastic components. For our electronic components, our IPQC team will conduct sampling inspection on the production of circuit boards from time to time, prior to assembling of electronic components and plastic components. For remote-controlled toy cars, our IPQC team will further conduct sampling trial test on the semi-finished products to test the functionality thereof prior to the assembling of battery and radio remote control components from time to time. We believe we will be able to screen out products which are defective with such quality control measures during the production process to ensure that the quality of our finished products satisfy our licensors' and/or customers' requirements as well as our stringent quality standards.

Quality control of the finished goods

Upon completion of assembling of our finished goods, in order to maintain the high quality of our products, the first finished goods of each mass production will be inspected by the relevant workshop supervisor and quality control manager. The rest of the finished products will be packaged and our quality assurance team (the "**QA**") will conduct random sampling inspections on our packaged finished goods prior to delivery of our products to our customers. Unsatisfactory products will be reworked until they reached the requisite standards. In respect of our sale of smart toys in the PRC, we engage Independent Third Parties to conduct testing thereon for China Compulsory Certification.

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

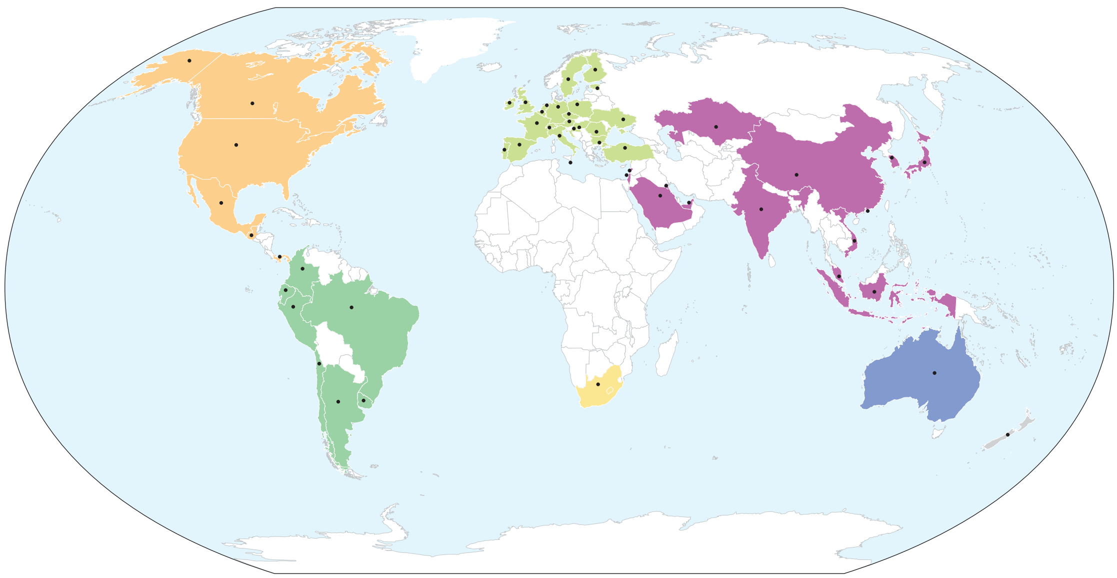
Product return policy

As our products are ultimately consumed by children, we understand the importance of product safety, and conduct testing and inspection our products prior to delivery to our customers in order to minimise after-sale quality issues. Upon delivery of our products, our customers are responsible to examine the products and report to us as soon as possible if our products are not up to their prescribed standards. Our contracts with our customers in general do not provide any product warranty to our customers, apart from defects in our products.

If our customers report to us that our products are not up to their standards, it is our policy to: (i) analyse the reasons for the defects; (ii) repair or replace/reproduce the products; (iii) confirm that the repaired or replaced/reproduced products are in compliance with our quality control protocols; and (iv) return the reproduced products to our customers, or refund to our customers, if necessary. We did not experience any material litigation, claims, return on sales, recalls, reworks, or repairs from our customers during the Track Record Period and up to the Latest Practicable Date.

SALES AND MARKETING

We have developed a global sales network. During the Track Record Period, we sold our products directly to over 300 customers in aggregate in over 50 countries across six continents. The map below shows the regions where we exported our products to during the Track Record Period:



North America: We cover, among others, the US and Canada;

Europe: We cover, among others, the UK, Germany and France;

Asia: We cover, among others, the PRC, Japan, Vietnam;

Oceania: We cover Australia and New Zealand;

Africa: We cover South Africa; and

South America: We cover, among others, Brazil and Argentina.

The following table sets out our revenue breakdown by geographical regions as determined by destination of delivery during the Track Record Period:

	For the year ended 31 December						For the eight months ended 31 August			
	2016		2017		2018		2018		2019	
	Revenue RMB'000	*%*	*Revenue RMB'000*	*%*	*Revenue RMB'000*	*%*	*Revenue RMB'000 (unaudited)*	*%*	*Revenue RMB'000*	*%*
North America *(Note 1)*	65,355	30.5	64,210	24.8	55,815	20.0	32,876	22.0	54,912	26.1
Europe *(Note 2)*	68,707	32.1	86,896	33.5	56,632	20.3	28,412	19.0	35,808	17.0
PRC *(Note 3)*	56,151	26.2	79,947	30.8	144,898	52.0	71,918	48.1	110,005	52.3
Asia, excluding the PRC	10,791	5.0	17,940	6.9	11,710	4.2	7,312	4.9	3,524	1.7
Others *(Note 4)*	13,021	6.2	10,192	4.0	9,662	3.5	8,862	6.0	5,991	2.9
Total	214,025	100.0	259,185	100.0	278,717	100.0	149,380	100.0	210,240	100.0

Notes:

1. Sale to the U.S. accounted for approximately 23.0%, 18.4%, 15.7% and 21.5% of our total revenue during the Track Record Period, respectively. Our business may be affected by any country's trade policy, for example the imposition of additional ad valorem duty on goods exported from the PRC to the US as a result of Sino-US trade war. For further details, please refer to the sub-paragraph headed "The Sino-US trade war may affect our business, financial conditions and results of operation." under the paragraph headed "Risks relating to our business" under the section headed "Risk factors" in this prospectus, and the sub-paragraph headed "Sino-US trade war" below.

2. Sale to the U.K. accounted for approximately 8.0%, 7.4%, 3.7% and 4.1% of our total revenue during the Track Record Period, respectively. Our business may be affected by any changes in political conditions. For further details, please refer to the sub-paragraph headed "Brexit may have adverse consequences for our business, financial condition, operating results and our ability to implement our growth strategies." under the paragraph headed "Risks relating to our business" under the section headed "Risk factors" in this prospectus.

3. Approximately RMB37.9 million, RMB56.0 million, RMB83.8 million and RMB77.6 million of our total revenue were derived from our sales to PRC Export-Oriented Wholesalers during the Track Record Period, respectively.

4. Others include Oceania, South America and Africa.

During the Track Record Period, all our revenue was derived from outright sale of our products to our customers, who are mainly retailers and wholesalers. For further details regarding our sales arrangement with our retailer customers as well as wholesalers customers, please refer to the paragraph headed "Our customers" below.

Based on destination of delivery, approximately 73.8%, 69.2%, 48.0% and 47.7% of our total revenue was derived from the sale of our products to overseas customers during the Track Record Period, respectively. With a view to expand and diversify our customer base and tap the PRC market with promising growth in its export of toy vehicles, there was an increase in our sales to PRC customers during the Track Record Period. Approximately 26.2%, 30.8%, 52.0% and 52.3% of our total revenue was derived from the sale of our products to PRC customers during the Track Record Period, respectively, of which approximately 17.7%, 21.6%, 30.1% and 36.9% of our total revenue were attributable to our sales to the PRC Export-Oriented Wholesalers during the same period, respectively. For further details regarding our sales arrangement with the PRC Export-Oriented Wholesalers, please refer to the sub-paragraph headed "Sales arrangement with wholesaler customers" under the paragraph headed "Our customers" in this section below.

Sino-US trade war

On 17 May 2019, the Office of the United States Trade Representative announced a further list (the "**Fourth List**") of products of Chinese origin, including toys, would be subject to an additional ad valorem duty, covering an annual trade value of approximately US$300 billion. On 1 August 2019, it was announced that the Fourth List will become effective on 1 September 2019; it was announced on 13 August 2019 that the effective date of imposing additional ad valorem duty on certain items included in the Fourth List, including certain toys, will be delayed until 15 December 2019 or removed. On 13 December 2019, the US and the PRC government officials announced that they have entered into a preliminary trade agreement, whereby the proposed US tariffs to be imposed on certain Chinese imported goods in the Fourth List, including toys, had been deferred. On 18 December 2019, at the direction of the president of the US, the US government determined to suspend indefinitely the imposition of the additional 15% ad valorem duty on certain Chinese imported goods in the Fourth List, including toys. Subsequently, on 15 January 2020, the US and the PRC government signed the phase one agreement aimed at easing the Sino-US trade war. Pursuant to such agreement, among others, US tariffs on approximately US$370 billion Chinese goods remain in place while avoiding the threat of further escalation. In addition, the US president said that the tariffs that remain would be removed pending progress on the second phase of negotiations. Accordingly, the imposition of proposed US tariff on toys exported from the PRC to the US shall continue to be suspended indefinitely, subject to further negotiation between the US and the PRC governments. On 6 February 2020, the Chinese officials announced that tariffs that the Chinese government imposed on some US goods since 1 September 2019 would be cut from 10% to 5%, and on others from 5% to 2.5%. Such reduction in tariffs has become effective since 14 February 2020, as Chinese officials' first response to the phase one agreement.

As mentioned, sale to the U.S. accounted for approximately 23.0%, 18.4%, 15.7% and 21.5% of our total revenue during the Track Record Period, respectively. As a result of the Sino-US trade war, if there is an increase in ad valorem duty on goods exported from the PRC to the US, especially on toys, such tariffs may lead to a decrease in the demand for our products bound for the US and our business may be adversely affected.

According to the CIC Report, additional ad valorem duty imposed by the US government (if any) is expected to be undertaken by manufacturers, wholesalers, retailers and consumers together. Despite the proposed US tariff to be imposed on toys exported from the PRC to the US has been suspended indefinitely, our Directors are of the view that the re-imposition of the US tariffs on Chinese toys remained uncertain and we did not make any price adjustment on our toy products sold to our customers based in the US as at the Latest Practicable Date.

To mitigate the impact that the proposed US tariffs will potentially bring, we will communicate with our customers in the US market regarding our sale of products that would constitute items that are affected by US tariffs (if any), and re-negotiate selling price of our products, if necessary.

We will also expand our overseas sales (other than the US) by actively participating in international toy fairs and exhibitions. For further details, please refer to the sub-paragraph headed "Expand our customer base in overseas market" under the paragraph headed "Business strategies" in this section above.

In the long run, U.S. retailers and wholesalers as well as toy industry players may need to switch to other alternatives. Eventually in the future, as manufacturers in other developing countries, such as Vietnam, may be able to produce high quality products that would be able meet U.S. safety and regulatory regimen with lower labour costs. Therefore, our Directors may consider setting up a factory in other countries with lower costs in general to cope with the future challenges faced by our Group from micro and macro business and economic perspective, such as Vietnam and Thailand if necessary, after the re-imposition of the US tariffs on toys, if any.

Marketing

It is our Group's strategy to maintain and expand our customer base. We have implemented various advertising and promotional activities to strengthen our brand portfolio and expand our market share, including participating in trade fairs. During the Track Record Period, our sales and marketing initiatives include attending the international toy fair in Nuremberg, Germany, which is the largest international trade fair for toys and games with more than 2,500 exhibiters from over 60 countries presenting their products, and attended by more than 70,000 trade visitors worldwide in 2019. Through attending toy fairs, we are able to obtain information about the latest market trend and get in touch with potential customers and/or business partners. We often attend overseas toy fairs which are participated by manufacturers, suppliers and customers from different countries, in which we believe we can gain market intelligence. In addition, we also showcase our products to our existing and potential customers by inviting them to visit our showroom in Hong Kong, as well as publishing catalogues of our products available for sale. We believe our strong relationships with key reputable international retailers and multinational toy specialty chain stores have strengthened our global presence and have enhanced our reputation, assisting us to attract customers in the PRC. Our website serves as a promotional platform for our products, and conveys the latest information about our products, enabling our customers to have better understanding of our product profiles. We will continue to promote our business and our Group, and we aim to maintain and strengthen our existing customer base, as well as to further diversify our customer base. For further details, please refer to the sub-paragraphs headed "Continue to prioritise and focus on overseas market by (i) maintaining and strengthening relationship with our existing direct overseas customers; and (ii) expanding our customer base." and "Continue to strengthen, expand and diversify our customer base by focusing on (i) PRC Export-Oriented Wholesalers; and (ii) PRC retailers." under the paragraph headed "Business strategies" in this section above.

For the three years ended 31 December 2018 and the eight months ended 31 August 2019, our exhibition and promotion expenses amounted to approximately RMB1.0 million, RMB0.5 million, RMB0.4 million and RMB0.2 million, respectively, representing approximately 5.8%, 3.2%, 2.4% and 1.7% of our total selling expenses during the same period.

OUR CUSTOMERS

Our customers primarily comprise:

(i) retailers, such as:

  (aa) multinational and national retailers operating mass market retail chain stores;

  (bb) multinational and national toy products retailers operating toy store chains; and

  (cc) internet store operators;

(ii) wholesalers, such as:

  (aa) overseas wholesalers which typically sell our products to their customers which may be wholesalers or retailers in the same markets that our overseas customers are based in;

  (bb) the PRC Export-Oriented Wholesalers, to the best of our Directors' knowledge and belief, principally export and sell toys to overseas wholesalers and retailers and would mainly export our products to overseas market; and

  (cc) PRC Domestic-Sale-Oriented Wholesalers that normally resell our products to their customers which may be wholesalers or retailers in specific areas in the PRC; and

(iii) overseas customers that engage us to manufacture products on OEM and ODM bases.

The following table sets out our revenue breakdown by customer type during the Track Record Period:

	For the year ended 31 December						For the eight months ended 31 August			
	2016		2017		2018		2018		2019	
	Revenue RMB'000	*%*	*Revenue RMB'000*	*%*	*Revenue RMB'000*	*%*	*Revenue RMB'000 (unaudited)*	*%*	*Revenue RMB'000*	*%*
Retailers										
— Overseas retailers	127,249	59.5	105,597	40.7	98,798	35.4	58,478	39.2	77,423	36.8
— PRC retailers	14,950	7.0	15,897	6.2	39,525	14.2	23,183	15.5	22,668	10.8
Sub-total:	142,199	66.5	121,494	46.9	138,323	49.6	81,661	54.7	100,091	47.6
Wholesalers										
— Overseas wholesalers	13,892	6.5	10,873	4.2	14,395	5.2	8,260	5.5	14,456	6.9
— PRC Export-Oriented Wholesalers	37,871	17.7	55,958	21.6	83,759	30.1	40,150	26.9	77,592	36.9
— PRC Domestic-Sale-Oriented Wholesalers	1,959	0.9	8,089	3.1	19,368	6.9	8,426	5.6	9,292	4.4
Sub-total:	53,722	25.1	74,920	28.9	117,522	42.2	56,836	38.0	101,340	48.2
Overseas ODM and OEM customers	16,733	7.8	62,768	24.2	20,626	7.4	10,725	7.2	8,356	4.0
Others *(Note)*	1,371	0.6	3	0.0	2,246	0.8	158	0.1	453	0.2
Total	214,025	100.0	259,185	100.0	278,717	100.0	149,380	100.0	210,240	100.0

Note: Others mainly represent companies engaging in various kinds of businesses, including kids-related businesses, which to the best of our Directors' knowledge and belief, purchased our products as ancillary gifts to their customers.

During the Track Record Period, we had approximately 130, 120, 240 and 210 customers. We had 52, 33, 145 and 60 new customers for each of the year/period respectively. Such new customer contributed approximately 12.6%, 5.8% 11.8% and 13.9% of total revenue for each of the year/period respectively as certain of the new customers tend to be placing orders with us in small quantity for trial basis in the first year. The increase in the number of our customers in 2018 was mainly due to our expansion of customer base after the impact of the Retailer's Liquidation. For each of the three years ended 31 December 2018 and the eight months ended 31 August 2019, our revenue generated from our five largest customers amounted to approximately RMB74.0 million, RMB121.0 million, RMB102.7 million and RMB87.6 million, respectively, representing approximately 34.6%, 46.5%, 36.8% and 41.6% of our total revenue, respectively, and our revenue generated from our largest customer was approximately RMB28.5 million, RMB61.8 million, RMB25.6 million and RMB36.6 million, respectively, representing approximately 13.3%, 23.8%, 9.2% and 17.4% of our total revenue, respectively. We have maintained business relationships with our five largest customers for a period ranging from approximately one to seven years.

All of our five largest customers during the Track Record Period are Independent Third Parties and none of our Directors, their associates or any Shareholder who, to the knowledge of our Directors, owns more than 5% of our share capital as any interest in any of these five largest customers.

The following tables set out certain information about our five largest customers for the years/period indicated:

For the year ended 31 December 2016

Customer	Principal business	Location	Type of products	Commencement of business relationship with us	Percentage of our Group's total revenue
					%
The Renowned Toy Specialty Retailer US, being an entity incorporated in 1928 and traded under the name of the Renowned Toy Specialty Retailer in the US (Note 1)	Comprehensive toy specialty retailer	The US	Smart toy vehicles	2013	13.3
The Renowned Toy Specialty Retailer Netherlands, being an entity incorporated in 2013 and traded under the name of the Renowned Toy Specialty Retailer in Europe (Note 2)	Comprehensive toy specialty retailer	The Netherlands	Smart toy vehicles	2016 (Note 2)	7.6
Dickie, being a company incorporated in 1978 and the group of companies in which it belongs to is famous in selling toy vehicles	Company which engages manufacturers to manufacture its products, mainly toy vehicles, on ODM/OEM bases and subsequently sell those products	Hong Kong	Smart toy vehicles and smart interactive toys	2012	5.4
Customer A, being companies traded under the name of the Renowned Multinational Retailer and their parent company being incorporated in 1970 (Note 3)	Comprehensive retailer	The US	Smart toy vehicles	2013	4.3
Customer B, being a company established in 2011, with its own showroom for displaying toy products and also usually participates in fairs such as the China Import & Export Fair; the top seven export-oriented wholesaler in the smart toy vehicles market in the PRC and exported products to North America, Latin America, Western Europe, Asia Pacific, Middle East and Africa in 2018 according to the CIC Report	PRC Export-Oriented Wholesaler	The PRC	Smart toy vehicles, smart interactive toys and traditional toy vehicles	2014	4.0

For the year ended 31 December 2017

Customer	Principal business	Location	Type of products	Commencement of business relationship with us	Percentage of our Group's total revenue
					%
Dickie, being a company incorporated in 1978 and the group of companies in which it belongs to is famous in selling toy vehicles	Company which engages manufacturers to manufacture its products, mainly toy vehicles, on ODM/OEM bases and subsequently sell those products	Hong Kong	Smart toy vehicles and smart interactive toys	2012	23.8
The Renowned Toy Specialty Retailer US, being an entity incorporated in 1928 and traded under the name of the Renowned Toy Specialty Retailer in the US (Note 1)	Comprehensive toy specialty retailer	The US	Smart toy vehicles	2013	10.5
The Renowned Toy Specialty Retailer Netherlands, being an entity incorporated in 2013 and traded under the name of the Renowned Toy Specialty Retailer in Europe (Note 2)	Comprehensive toy specialty retailer	The Netherlands	Smart toy vehicles	2016 (Note 2)	4.4
Customer B, being a company established in 2011, with its own showroom for displaying toy products and also usually participates in fairs such as the China Import & Export Fair; the top seven export-oriented wholesaler in the smart toy vehicles market in the PRC and exported products to North America, Latin America, Western Europe, Asia Pacific, Middle East and Africa in 2018 according to the CIC Report	PRC Export-Oriented Wholesaler	The PRC	Smart toy vehicles, smart interactive toys and traditional toy vehicles	2014	4.2
Customer A, being companies traded under the name of the Renowned Multinational Retailer and their parent company being incorporated in 1970 (Note 3)	Comprehensive retailer	The US	Smart toy vehicles	2013	3.6

For the year ended 31 December 2018

Customer	Principal business	Location	Type of products	Commencement of business relationship with us	Percentage of our Group's total revenue
					%
Customer A, being companies traded under the name of the Renowned Multinational Retailer and their parent company being incorporated in 1970 (Note 3)	Comprehensive retailer	The US	Smart toy vehicles	2013	9.2
Customer B, being a company established in 2011, with its own showroom for displaying toy products and also usually participates in fairs such as the China Import & Export Fair; the top seven export-oriented wholesaler in the smart toy vehicles market in the PRC and exported products to North America, Latin America, Western Europe, Asia Pacific, Middle East and Africa in 2018 according to the CIC Report	PRC Export-Oriented Wholesaler	The PRC	Smart toy vehicles, smart interactive toys and traditional toy vehicles	2014	8.1
Dickie, being a company incorporated in 1978 and the group of companies in which it belongs to is famous in selling toy vehicles	A company which engages manufacturers to manufacture its products, mainly toy vehicles, on ODM/OEM bases and subsequently sell those products	Hong Kong	Smart toy vehicles and smart interactive toys	2012	7.3
Customer C, a company established in 2015 and has its own showroom for displaying toy products, which exported products to North America, Latin America, Western Europe, Asia Pacific, Middle East and Africa in 2018 according to the CIC Report	PRC Export-Oriented Wholesaler	The PRC	Smart toy vehicles, smart interactive toys and traditional toy vehicles	2015	6.6
Customer D, a company established in 2010, has its own showrooms for displaying toy products and usually participates in fairs such as the China Import & Export Fair, MIR Detstva (Moscow) and Child & Junior Fashion (Moscow), which exported products to North America, Latin America, Europe, Asia Pacific, Middle East and Africa in 2018 according to the CIC Report	PRC Export-Oriented Wholesaler	The PRC	Smart toy vehicles, smart interactive toys and traditional toy vehicles	2015	5.6

For the eight months ended 31 August 2019

Customer	Principal business	Location	Type of products	Commencement of business relationship with us	Percentage of our Group's total revenue
					%
Customer A, being companies traded under the name of the Renowned Multinational Retailer and their parent company being incorporated in 1970 *(Note 3)*	Comprehensive retailer	The US	Smart toy vehicles	2013	17.4
Customer D, a company established in 2010, has its own showrooms for displaying toy products and usually participates in fairs such as the China Import & Export Fair, MIR Detstva (Moscow) and Child & Junior Fashion (Moscow), which exported products to North America, Latin America, Europe, Asia Pacific, Middle East and Africa in 2018 according to the CIC Report	PRC Export-Oriented Wholesaler	The PRC	Smart toy vehicles, smart interactive toys and traditional toy vehicles	2015	8.2
Customer E, a company established in 1997, which has its own showroom for displaying toy products and usually participates in fairs such as the China Import & Export Fair, MIR Detstva (Moscow) and Child & Junior Fashion (Moscow), which exported products to North America, Latin America, Eastern Europe and Asia Pacific in 2018 according to the CIC Report *(Note 4)*	PRC Export-Oriented Wholesaler	The PRC	Smart toy vehicles, smart interactive toys and traditional toy vehicles	2019	6.1
Customer B, being a company established in 2011, with its own showroom for displaying toy products and also usually participates in fairs such as the China Import & Export Fair; the top seven export-oriented wholesaler in the smart toy vehicles market in the PRC and exported products to North America, Latin America, Western Europe, Asia Pacific, Middle East and Africa in 2018 according to the CIC Report	PRC Export-Oriented Wholesaler	The PRC	Smart toy vehicles, smart interactive toys and traditional toy vehicles	2014	5.0
Customer C, a company established in 2015 and has its own showroom for displaying toy products, which exported products to North America, Latin America, Western Europe, Asia Pacific, Middle East and Africa in 2018 according to the CIC Report	PRC Export-Oriented Wholesaler	The PRC	Smart toy vehicles, smart interactive toys and traditional toy vehicles	2015	4.9

Notes:

1. Our sales to entities traded under the name of the Renowned Toy Specialty Retailer were not consolidated as they are owned and managed separately, to the best of our Directors' knowledge and belief. For disclosure purpose, our aggregate sale to entities traded under the name of the Renowned Toy Specialty Retailer amounted to approximately RMB55.8 million, RMB49.7 million, RMB26.3 million and RMB6.9 million during the Track Record Period, respectively, representing approximately 26.1%, 19.2%, 9.4% and 3.3% of our total revenue during the same period, respectively.

2. To the best of our Directors' knowledge and belief, the Renowned Toy Specialty Retailer Netherlands was used to centralise placing purchase orders for entities traded under the name the Renowned Toy Specialty Retailer in various countries in Europe, such as France, Spain and Germany, from 2016 and until the Retailer's Liquidation.

3. Our sale to Customer A includes several different entities that are traded under the name of the Renowned Multinational Retailer and are owned by the same company. During the Track Record Period, our sale to companies that are traded under the name of the Renowned Multinational Retailer amounted to approximately RMB13.9 million, RMB13.5 million, RMB29.0 million and RMB39.9 million, representing approximately 6.5%, 5.2%, 10.4% and 19.0%, respectively.

4. Customer E commenced entering into sales agreements with us and became one of our top five customers during the eight months ended 31 August 2019. To the best of our Directors' knowledge and belief, Customer E commenced entering into sales agreements with us during the eight months ended 31 August 2019 as its retailer customers had great demand in our toy products during the same period.

With limited production capacity during the Track Record Period, even though we tend to diversify our customer base, much of our production capacity was utilised for manufacturing toy products for overseas retailer customers. We give preference to overseas retailer customers to satisfy their demand as (i) we tend to maintain strong relationship with these reputable customers which generate higher gross profit margin; and (ii) the purchase volume indication provided by some of them facilitates our planning in production schedule. During the Track Record Period, our top five customers comprised overseas retailer customers, an ODM and OEM customer (namely Dickie) and PRC Export-Oriented Wholesalers.

The number of retailer customers that are also our top five customers during the Track Record Period decreased from three during the year ended 31 December 2016 to one during the eight months ended 31 August 2019. In 2016, our retailer customers that were our top five customers were entities that traded under the name of the Renowned Toy Specialty Retailer, namely the Renowned Toy Specialty Retailer US and the Renowned Toy Specialty Retailer Netherlands, and the Renowned Multinational Retailer.

Our sale of products to entities traded under the name of the Renowned Toy Specialty Retailer, in aggregate, amounted to approximately 26.1%, 19.2%, 9.4% and 3.3% during the Track Record Period, respectively. As a result of the Retailer's Liquidation, the Renowned Toy Specialty Retailer US and the Renowned Toy Specialty Retailer Netherlands no longer constituted our top five customers. The Renowned Toy Specialty Retailer US, which was used to be our top five customers, was liquidated and we subsequently wrote off certain outstanding accounts receivable from it in 2018. The Renowned Toy Specialty Retailer US was restructured in 2019 and a new company traded under the name of the Renowned Toy Specialty Retailer was incorporated in the US and such new company has commenced placing purchase orders with us during the eight months ended 31 August 2019. During the Track Record Period, our sale to entities traded under the name of the Renowned

Toy Specialty Retailer in the US, including the Renowned Toy Specialty Retailer US and the new company incorporated in 2019, amounted to approximately RMB28.5 million, RMB27.3 million, RMB5.6 million and RMB0.3 million, respectively, representing approximately 13.3%, 10.5%, 2.0% and 0.1%, respectively. To the best of our Director's knowledge and belief, in respect of sale to the Renowned Toy Specialty Retailer in Europe, instead of having the Renowned Toy Specialty Retailer Netherlands as a sourcing company for centralising all purchase orders from different entities traded the name of the Renowned Toy Specialty Retailer across Europe, including France, Germany, Spain before the Retailer's Liquidation, various entities traded under the name of the Renowned Toy Specialty Retailer placed purchase orders with us individually in 2018. During the Track Record Period, our sale to entities traded under the name of the Renowned Toy Specialty Retailer in Europe, including the Renowned Toy Specialty Retailer Netherlands, amounted to approximately RMB16.3 million, RMB11.5 million, RMB7.0 million and RMB1.2 million, respectively, representing approximately 7.6%, 4.4%, 2.5% and 0.6%, respectively, during the same period.

As a result of the Retailer's Liquidation, we received approximately RMB1.3 million from the Renowned Toy Specialty Retailer US during the year ended 31 December 2018. Approximately RMB4.4 million of the amount receivables from the Renowned Toy Specialty Retailer US was written off during the year ended 31 December 2018 and afterwards there was no outstanding amount due from the Renowned Toy Specialty Retailer US as at 31 December 2018. The Renowned Toy Specialty Retailer US was subsequently liquidated and did not conduct any business with us during the eight months ended 31 August 2019 and as at the Latest Practicable Date. In addition, in respect of the Renowned Toy Specialty Retailer Netherlands, approximately RMB1.4 million was received from the Renowned Toy Specialty Retailer Netherlands during the year ended 31 December 2018. Approximately RMB25,000 of the amount receivables from the Renowned Toy Specialty Retailer Netherlands was written off during the year ended 31 December 2018 and afterwards there was no outstanding amount due from the Renowned Toy Specialty Retailer Netherlands as at 31 December 2018. Similarly, the Renowned Toy Specialty Retailer Netherlands was subsequently liquidated and did not conduct any business with us during the eight months ended 31 August 2019 and as at the Latest Practicable Date. Apart from the Renowned Toy Specialty Retailer US and the Renowned Toy Specialty Retailer Netherlands, so far as our Directors are aware of, there were changes in ownership of each of the entities that are traded under the name of the Renowned Toy Specialty Retailer in France, Spain, Germany, Canada, Asia (excluding Japan and the PRC), Japan and the PRC subsequent to the Retailer's Liquidation. Entities that are traded under the name of the Renowned Toy Specialty Retailer in France, Spain, Germany, Canada, Asia (excluding Japan and the PRC), Japan and the PRC continued to operate under the same name, and continued placing purchase orders with us in 2018. We maintained our business relationship with such entities as they continued purchasing our products during the eight months ended 31 August 2019. In addition, according to the CIC Report, as a result of the bankruptcy of the Renowned Toy Specialty Retailer in different places, their respective businesses in Asia, Central Europe and Canada were taken over by several major retailers and specialty toy stores, such as Walmart and Target. The impact of the Retailer's Liquidation on our financial performance during the Track Record Period has been managed through expansion of our customer base.

Our top five customers included one PRC Export-Oriented Wholesaler in 2016, while our top five customers included four PRC Export-Oriented Wholesalers during the eight months ended 31 August 2019. Even though there was an increase in number of PRC Export-Oriented Wholesalers that constitute our top five customers during the Track Record Period, we have still maintained a large number of retailer customers during the same period. We have 79, 84, 155 and 140 retailer customers during the Track Record Period, respectively. Apart from Customer A, our retailer customers did not become our top five customers during the Track Record Period as their respective purchase amount was not significant.

As a result of the Retailer's Liquidation, we have enhanced our internal control policy by tightening our credit policy against our customers. When granting credit period to our customers, we would generally take into account of the creditworthiness of the respective customers in order to minimise the risk of bad debt. We would also review our customers regularly to evaluate their creditworthiness and review overdue receivables from each of our customers from time to time in order to ensure amount receivables would be collected in a timely manner.

The credit period granted to our top five customers ranges from 10 to 120 days and the payment method is usually bank transfer. Our sale to overseas customers is generally under free on board arrangement. While we normally deliver our products to the specific destination of our PRC customers or they will pick up our products from our factory.

During the Track Record Period, save as disclosed in the sub-paragraphs headed "Sales arrangement with retailer customers" and "Sales arrangement with wholesaler customers" below, we did not enter into any framework agreement with our customers. We usually receive purchase orders and sales agreements from our overseas and PRC customers, respectively. Typical terms in the sales agreement and purchase orders include product type, quantity, unit price, payment method, credit term, delivery term and shipment date.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced nor were we aware of any circumstances leading to contractual claims by our major customers.

Sales arrangement with retailer customers

During the Track Record Period, approximately 66.5%, 46.9%, 49.6% and 47.6% of our revenue was derived from sales to retailer customers. Save as disclosed below, we generally do not enter into long-term agreements with our retailer customers. The major terms of these purchase orders or sales agreements (where applicable) generally set out product specifications, unit price, quantity and date of delivery.

Overseas retailer customers

We usually provide our catalogue of our products to our overseas retailer customers from January to February each year to cater the sales in the upcoming year. Based on the expected market demand for our products estimated by our retailer customers in the upcoming year, they usually give us an indication of their estimated purchase volume for the upcoming year in advance around first quarter of such year. Subsequently, they will negotiate the terms with us each time they place purchase orders with us during the year. Our overseas customers would generally place bulk purchase order for our products around March to May each year.

As at the Latest Practicable Date, we did not enter into any sales and purchase framework agreements with our overseas retailer customers.

During the Track Record Period our major overseas customers, including entities traded under the name of the Renowned Toy Specialty Retailer, usually purchase our co-branded products. The Renowned Toy Specialty Retailer has had declining business, with the Retailer's Liquidation subsequently.

PRC retailer customers

Our retailer customers in the PRC usually enter into sales agreements with us from time to time.

As at the Latest Practicable Date, we entered into legally-binding sales and purchase framework agreements with a few of our retailer customers in the PRC. The salient terms and conditions of typical sales and purchase framework agreement with such retailer customers in the PRC are as follows:

Duration:	One year
Minimum purchase commitment:	Not applicable
Geographic coverage:	Nationwide within the PRC
Sales rebate:	Percentage depending on the retailer customers' sales volume of our toy products
Goods return arrangements:	Generally, except for defective goods which can be returned, goods return are not allowed in other cases
Renewal:	No automatic renewal clause, subject to parties' negotiation (as the case may be)
Termination:	Either party shall have the right to terminate the sales and purchase framework agreement in the event that the defaulting party fails to rectify a material breach of the sales and purchase agreement within a period of time.

During the year ended 31 December 2018, we entered into legally-binding sales and purchase framework agreements with our online retailer customers. The terms of such sales and purchase framework agreements usually range from 10 months to one year, covering most online platforms in the PRC. Pursuant to such sales and purchase agreements, except for defective goods, which can be returned, goods return are not allowed in other cases. As we are still at the initial stage of our online sales, we consider it would be more cost effective to conduct online sale of our products through selling our products to online retailer customer, instead of solely establishing our presence on online market in the PRC by ourselves. During the Track Record Period, sales derived from online platform operated by our Group amounted to approximately RMB4,000, RMB3,000, nil and RMB33,000, respectively. We will continue to observe the financial performance from both means of online sales to decide which method should we adopt in the long run.

During the Track Record Period, there had not been any breaches of such sale and purchase framework agreement by either of us or our retailer customers.

Sales arrangement with wholesaler customers

During the Track Record Period, approximately 25.1%, 28.9%, 42.2% and 48.2% of our revenue was derived from sales to wholesaler customers, who resell our products to their customers which may be wholesalers or retailers.

According to the CIC Report, since wholesalers generally have conducted businesses with local retailers for many years, they usually have more bargaining power when dealing with local retailers and know how to sell products in a better way. As such, it would be a good solution for manufacturers to sell their products to wholesalers if they want to enter into new markets quickly. We intend to expand and diversify our customer base with a view to sell our products ultimately to different kinds of retailers. We are of the view that we would be able to expand the overseas market through sale of products to our wholesaler customers.

The difference between our overseas wholesaler customers and PRC wholesaler customers are as follows:

	Overseas wholesaler customers	**PRC wholesaler customers**	
		PRC Domestic-Sale-Oriented Wholesalers	**PRC Export-Oriented Wholesalers**
Target customers	Customers which may be wholesalers or retailers in the same markets that they are based in, e.g. the US and European countries	Customers which may be wholesalers or retailers in specific areas in the PRC	Customers which, to the best of our Directors' knowledge and belief, may be wholesalers or retailers in overseas market, such as North America, Latin America, Western Europe and Asia Pacific;
Basis of placing purchase orders or entering into sales agreements (where applicable)	Based on purchase orders gathered from their customers		
Type of our products being sold to them	Mainly our co-branded smart toy vehicles	Mainly our smart toy vehicles sold under our "kidztech" brand	Mainly our smart toy vehicles and traditional toy vehicles sold under our "kidztech" brand

We generally do not enter into long-term agreements with our wholesaler customers. We do not (i) impose any minimum purchase obligation on our wholesaler customers; and (ii) have control over our wholesaler customers. In addition, we do not provide any assistance or support to wholesaler customers. Our wholesalers are not entitled to return unsold goods to us except for malfunction or manufacturing defect in our products, and in such case, return will be considered on a case by case basis. The terms of purchases orders placed by our wholesaler customers are negotiated for each purchase. The major terms of these purchase orders or sales agreements (where applicable) generally set out product specifications, unit price, quantity, date of delivery and quality standard. The terms and conditions of purchase orders placed by or sales agreements that we entered into with our wholesaler customers (where applicable) are in line with our sales strategies for our products.

We select our customers by reviewing their credibility. We review the historical settlement records of our customers from time to time in order to decide whether to continue to trade with such customers. In terms of credit period and payment terms, there are no differences between those granted by us to the overseas wholesalers, the PRC Export-Oriented Wholesalers and PRC Domestic-Sale-Oriented Wholesalers. The credit period and payment terms may only vary from time to time, depending on the scale of operation of our PRC wholesaler customers.

Our wholesaler customers would normally place purchase orders or enter into sales agreements with us after they gathered the purchase orders from their respective customers.

So far as our Directors are aware of, wholesaler customers would not disclose the identity of their customers to us in order to avoid leakage of their trade secrets. Nevertheless, through our communication with our wholesaler customers and market information available to our Directors, we understand that our retailer customers will not purchase our products from our wholesaler customers as they have direct relationship with us, and it would not be necessary for them to purchase our products indirectly. As such, we believe we are able to avoid any onward sale of our products from the PRC Export-Oriented Wholesalers and PRC Domestic-Sale-Oriented Wholesalers to our direct customers, including retailer customers in the PRC and overseas market, as well as wholesaler customers in overseas market. So far as our Directors are aware of, there are no overlapping customers among our customers and our wholesaler customers.

Overseas wholesalers customers

During the Track Record Period, our overseas wholesaler customers are mainly customers based in the US and European countries. To the best of our Directors' knowledge and belief, these overseas customers would typically onward sell our products to their customers which may be wholesalers or retailers in the same markets.

As the growth in toy markets in the US and European countries have slowed down and taking into account of the Retailer's Liquidation, we are of the view that we need to expand our presence in the PRC and the overseas market through PRC Export-Oriented Wholesalers.

The following table sets out the movement in the number of our overseas wholesaler customers during the Track Record Period:

	For the year ended 31 December			For the eight months ended 31 August
	2016	2017	2018	2019
Number of overseas wholesalers at the beginning of the year/period	21	27	27	23
Additional overseas wholesalers who purchased our products for the first time ever	16	8	10	11
Prior year overseas wholesalers which did not purchase from us during the year/period and up to the Latest Practicable Date *(Note)*	(10)	(8)	(14)	(12)
Number of overseas wholesalers at the end of the year/period	27	27	23	22

Note: Our Directors do not exclude the possibility of having business relationship with such customers again in the future.

The number of our overseas wholesaler customers remained stable during the Track Record Period. The sales contributed by the new overseas wholesaler customers accounted to approximately RMB8.3 million, RMB3.9 million, RMB3.8 million and RMB3.0 million during the Track Record Period, respectively.

PRC wholesaler customers

Our PRC wholesaler customers consist of (i) the PRC Domestic-Sale-Oriented Wholesalers that normally resell our products to their customers which may be wholesalers or retailers in specific areas in the PRC; and (ii) the PRC Export-Oriented Wholesalers that, to the best of our Directors' knowledge and belief, principally export and sell toys to overseas wholesalers and retailers and would mainly onward export our products to overseas market such as North America, Latin America, Western Europe, and Asia Pacific. According to the CIC Report, it is common for PRC manufacturers that are engaged in production on OBM basis to sell products to export-oriented wholesalers in the PRC so that their products would be mainly onward exported to overseas market. Our PRC wholesaler customers usually enter into sales agreements with us from time to time, and with a relatively short delivery schedule, as compared to overseas ones which usually place bulk purchase orders with us during the year. As a result, to the best of our Directors' knowledge and belief, there were some occasions that we may not be able to fulfil all demand from PRC wholesaler customers if our production schedule is occupied by the orders from our other customers and we cannot meet the expected delivery schedule of our PRC wholesaler customers.

PRC Export-Oriented Wholesalers

The following table sets out the movement in the number of our PRC Export-Oriented Wholesalers during the Track Record Period:

	For the year ended 31 December			For the eight months ended 31 August
	2016	2017	2018	2019
Number of PRC Export-Oriented Wholesalers at the beginning of the year/period	13	10	9	10
Additional PRC Export-Oriented Wholesalers who purchased our products for the first time ever	—	—	2	3
Prior year PRC Export-Oriented Wholesalers which did not purchase from us during the year/period and up to the Latest Practicable Date *(Note)*	(3)	(1)	(1)	(1)
Number of PRC Export-Oriented Wholesalers at the end of the year/period	10	9	10	12

Note: Our Directors do not exclude the possibility of having business relationship with such customers again in the future.

The number of PRC Export-Oriented Wholesalers remained stable during the Track Record Period. The sales contributed by the new PRC Export-Oriented Wholesalers amounted to approximately nil, nil, RMB2.8 million and RMB17.9 million respectively, during the Track Record Period.

Our major PRC Export-Oriented Wholesalers are well-established, and have cooperated with our Group for many years. They would usually have their own showroom and/or participate in fairs such as the China Import & Export Fair, which is a comprehensive international trading event organised by the Ministry of Commerce of the PRC and the People's Government of Guangdong Province, and China Toy Expo, which is the largest trade fair for toys and educational products in Asia and the first gateway for international companies to explore Chinese market. The China Import & Export Fair is an outstanding platform for Chinese enterprises to explore the international market and an exemplary base to implement China's strategies for foreign trade growth. Some of the PRC Export-Oriented Wholesalers would also participate in fairs in other countries, such as MIR Detstva and Child & Junior Fashion, both being the largest toy exhibitions in Russia, and Toy Fair New York in the US. Our Directors believe our toy products would usually be exhibited in such fair and showrooms of PRC Export-Oriented Wholesalers. To the best of our Directors' knowledge and belief, the PRC Export-Oriented Wholesalers have various suppliers in the PRC, different kinds of customer from different countries, which would place purchase orders of the selected toy products with the PRC Export-Oriented Wholesalers after visiting the showrooms and/or the fair, and those customers generally settled their payment directly to PRC Export-Oriented Wholesalers by teletransfer or by letter of credit. The export destinations of the PRC Export-Oriented Wholesalers mainly include North America, Latin America, Western Europe and Asia Pacific in 2018 according to the CIC Report.

During the Track Record Period and as at the Latest Practicable Date, to the best knowledge of our Directors, all PRC Export-Oriented Wholesalers are Independent Third Parties and except for the business relationship, there is no past and present relationships (including, without limitation, family, employment, financial or otherwise) between the PRC Export-Oriented Wholesalers and the Company, its subsidiaries, their shareholders, directors, senior management or their respective associates.

PRC Domestic-Sale-Oriented Wholesalers

The following table sets out the movement in the number of our PRC Domestic-Sale-Oriented Wholesalers during the Track Record Period:

	For the year ended 31 December			For the eight months ended 31 August
	2016	2017	2018	2019
Number of PRC Domestic Sale-Oriented Wholesalers at the beginning of the year/period	7	7	5	46
Additional PRC Domestic Sale-Oriented Wholesalers who purchased our products for the first time ever	4	2	43	6
Prior year PRC Domestic Sale-Oriented Wholesalers which did not purchase from us during the year/period and up to the Latest Practicable Date*(Note)*	(4)	(4)	(2)	(22)
Number of PRC Domestic Sale-Oriented Wholesalers at the end of the year/period	7	5	46	30

Note: Our Directors do not exclude the possibility of having business relationship with such customers again in the future.

The number of PRC Domestic-Sale-Oriented Wholesalers remained stable during the two years ended 31 December 2017. The number of our PRC Domestic-Sale-Oriented Wholesalers increased from 5 in 2017 to 46 in 2018, mainly as a result of (i) the increase in our production capacity; and (ii) our effort in expanding and diversifying our PRC-based customer base. Historically, through our marketing initiatives, including attending the toy fairs, our potential customers, including PRC Domestic-Sale-Oriented Wholesalers, became acquainted with us. These potential customers made preliminary enquiries with us as to whether we were interested in or able to take their purchase orders through telephone discussions. Given our large variety of products with our limited production capacity, to the best of our Directors' knowledge and belief, we were not able to fulfil all demand from wholesaler customers if our production schedule is occupied by the orders from our overseas retailer customers and we cannot meet the expected delivery schedule of our wholesaler customers. As a result, even there was demand from such potential PRC Domestic-Sale-Oriented Wholesalers, we did not take up any purchase orders of our products from them. During the Track Record Period and as at the Latest Practicable Date, since we did not maintain a comprehensive record of declined orders, we could not quantify the value of purchase orders of our products that we declined from such potential PRC Domestic Sale-Oriented Wholesalers during the Track Record Period.

In light of the Retailer's Liquidation, which commenced in 2017, we target to expand and diversify our PRC-based customer base in order to diversify the concentration risk on overseas customers. Given the increase in our production capacity from approximately 323.8 thousand hours for the year ended 31 December 2017 to approximately 367.0 thousand hours for the year ended 31 December 2018, we were able to fulfil the demand from the then potential PRC customers, including PRC Domestic-Sale-Oriented Wholesalers, by taking up their purchase orders of our products during the year ended 31 December 2018. Our new PRC Domestic-Sale-Oriented Wholesalers in 2018 mainly placed purchase orders for our products that we were producing for other customers at the same time in small quantity for trial basis. Therefore, we were able to accommodate their demand without affecting our production schedule. We obtained 43 new PRC Domestic-Sale-Oriented Wholesalers in 2018 ("**2018 New PRC Domestic-Sale-Oriented Wholesalers**"). Since most of the sale to the 2018 New PRC Domestic-Sale-Oriented Wholesalers were on trial basis, the sale to the 2018 New PRC Domestic-Sale-Oriented Wholesalers accounted for approximately RMB1.0 million, representing approximately 0.4% of our total revenue during the year ended 31 December 2018, and a number of them did not place purchase orders with us during the eight months ended 31 August 2019 and up to the Latest Practicable Date. Thus, the number of PRC Domestic-Sale-Oriented Wholesalers decreased to 30 for the eight months ended 31 August 2019. The sale to such PRC Domestic-Sale-Oriented Wholesalers which did not purchase from us during the eight months ended 31 August 2019 are relatively smaller in scale and their aggregate sales only accounted for approximately RMB0.5 million, representing approximately 0.2% of our total revenue in 2018, with an average sale of approximately RMB22,000 per each customer. Despite the decrease in number of PRC Domestic-Sale-Oriented Wholesalers, there was an increase in sales attributable to new PRC Domestic-Sale-Oriented Wholesalers from approximately RMB1.0 million for the year ended 31 December 2018 to approximately RMB4.2 million for the eight months ended 31 August 2019. As we have established relationship with some of the 2018 New PRC Domestic-Sale-Oriented Wholesalers which continue business with us, they, together with our existing PRC Domestic-Sale-Oriented Wholesalers and six new PRC Domestic-Sale-Oriented Wholesalers for the eight months ended 31 August 2019, entered into sales agreements with us during the eight months ended 31 August 2019. In particular, the sales attributable to one of the 2018 New PRC Domestic-Sale-Oriented Wholesalers increased by approximately six times for the eight months ended 31 August 2019, as compared with the same during the year ended 31 December 2018. Nevertheless, the sales to PRC Domestic-Sale-Oriented wholesalers were not significant as compared with the overall sales of the Group during the Track Record Period.

During the Track Record Period and as at the Latest Practicable Date, to the best knowledge of our Directors, all PRC Domestic-Sale-Oriented Wholesalers are Independent Third Parties and except for the business relationship, there is no past and present relationships (including, without limitation, family, employment, financial or otherwise) between the PRC Domestic-Sale-Oriented Wholesalers and the Company, its subsidiaries, their shareholders, directors, senior management or their respective associates.

Sales arrangement with overseas ODM and OEM customers

Our products, which are sold under our customers' brands, are mainly sold to Dickie, which engages us for manufacturing products on ODM and OEM bases. During the Track Record Period, approximately 7.8%, 24.2%, 7.4% and 4.0% of our revenue was derived from sales to overseas ODM and OEM customers. Dickie is a member of a group of companies that is famous in selling toy vehicles and has been cooperated with renowned automobile companies for a long time. There was a significant increase in our sales to Dickie between 2016 and 2017 mainly due to our sale of products, being smart toy vehicles featuring certain characters of a motion picture related to cars, as a result of the popularity of such motion picture in 2017. We generally do not enter into long-term agreements with our overseas ODM and OEM customers, and the terms of purchase orders placed by our overseas ODM and OEM customers are negotiated for each purchase. The major terms of these purchase orders generally set out product specifications, unit price, quantity and date of delivery. For products that are manufactured and sold on ODM basis, after obtaining final approval on design and prototype of relevant products, we commence production of the relevant products after we receive the order placed by the relevant customer. On the other hand, for products that are manufactured and sold on OEM basis, the relevant customer would provide us the design and product specifications of their products before placing purchasing order with us. Based on the design or the re-design discussed among us and the relevant customers and product specifications provided by such customer, we would develop a prototype of each of their products for their approval. Upon receipt of their approval, we would commence production of such products once purchase orders have been placed. During the Track Record Period, we did not enter into any framework agreement with our overseas customers which engaged us to manufacture products on ODM and OEM bases.

As at the Latest Practicable Date, we had been negotiating with companies that own and sell toys with different brands in the global toy market, such as the Italian OEM Customer, the US OEM Customer A and the US OEM Customer B, to diversify and expand our overseas customer base us for manufacturing on ODM and OEM bases. Two of them commenced placing purchase order with us to engage us in manufacturing on OEM basis, as at the Latest Practicable Date.

Pricing policies and payment terms

We determine our pricing policy to our customers based on a variety of factors, including market demand, retail price of similar products in the market, cost of raw materials, labour costs, past relationship and specifications of different customers. As (i) our overseas customers generally require higher standard towards quality of our products; and (ii) our overseas sales mainly comprises sales of co-branded products with licensed rights of brands of renowned automobile manufacturers, popular entertainment characters featured in animated television series or motion pictures or toy brands owner, while our sales in the PRC mainly consists of our toy products in our "kidztech" brand, we have different pricing policy for our overseas customers and PRC customers. For our overseas customers, we set our price mainly based on market demand, retail price of similar products in the market, cost of raw materials and labour costs, while the price of our products which we sell to our PRC customers mainly based on cost of raw materials and market demand. We offer bulk purchase discount or more competitive prices to customers, such as multinational and national retailers operating mass market retail chain stores for holiday or special occasions as we will benefit from economies of scale and can save administrative and transaction costs. To ensure observance with our pricing policies whilst maintaining flexibility in response to changing market conditions, our sales and marketing department will seek approval from either Mr. Yu (in respect of PRC sales) or Mr. Pui (in respect of overseas sales) to offer our customers a discount.

Settlement method

All retailers, wholesalers and overseas ODM and OEM customers settle their purchases through direct settlement during the Track Record Period. Our customers generally settle the payment by teletransfer. The following table sets out how our customers generally settle their purchases:

	Payment terms
Retailers	
Overseas retailers	Prepayment in full or in part; settle payment in 30–90 days after receipt of goods
PRC retailers	Payment in 30–120 days after receipt of goods
Wholesalers	
Overseas wholesalers	Prepayment in full or in part; settle payment in 0–60 days after receipt of goods
PRC Export-oriented wholesalers	Payment in 60–120 days after receipt of goods
PRC Domestic-sale-oriented wholesalers	Prepayment in full or in part; settle payment in 30–60 days after receipt of goods
Overseas ODM and OEM customers	30–60 days after shipment

Seasonality

In general, we experience higher sales between June and December of each year, which is our peak season for shipment to meet the Christmas and New Year holiday seasons. Our overseas customers usually place bulk purchase orders with us from March to May each year in anticipation of their projected sales for the upcoming year. The shipment of products regarding bulk purchase placed by our overseas customers would usually take place between June and December of each year.

OUR SUPPLIERS

We sourced our raw materials from third-party suppliers located in the PRC. Our principal raw materials comprise plastic resin, electronic parts and printed box. For the three years ended 31 December 2018 and the eight months ended 31 August 2019, our total cost of raw materials and goods used represented approximately 63.5%, 64.2%, 66.0% and 65.7% of our cost of sales, respectively.

We select our suppliers based on the following factors: quality, reliability, creditworthiness and our past experience when conducting business with them. We generally place procurement orders in large volume.

Our suppliers primarily comprise plastic resins manufacturers, electronic parts manufacturers and packaging materials providers. For each of the three years ended 31 December 2018 and the eight months ended 31 August 2019, our purchase from our five largest suppliers were approximately RMB22.5 million, RMB35.7 million, RMB66.9 million and RMB52.5 million, respectively, representing approximately 26.8%, 29.8%, 43.7% and 51.8% of our total purchase, respectively. For the same period, our purchase from our largest supplier was approximately RMB10.8 million, RMB15.8 million, RMB25.8 million and RMB26.8 million, respectively, representing approximately 12.8%, 13.2%, 16.9% and 26.5% of our total purchase, respectively.

We have maintained business relationships with our five largest suppliers ranging between one and four years. During the Track Record Period, all of our five largest suppliers are Independent Third Parties and none of our Directors, their associates or any Shareholder who, to the knowledge of our Directors, owns more than 5% of our share capital as any interest in any of these five largest suppliers.

The following tables set out certain information about our five largest suppliers for the years/period indicated:

For the year ended 31 December 2016

Supplier	Principal business	Location	Type of products	Commencement of business relationship with us (Note 1)	Percentage of our Group's total purchase	Scale of operation (Total revenue in million RMB approximately in 2018)
					%	
Supplier A	A company principally manufactures and processes polystyrene resin, synthetic resin, synthetic rubber, fiber and its products	The PRC	Plastic resins	2015	12.8	1,402
Supplier B	A company principally prints, manufactures, processes and sells cartons, paper products, packaging products and related products	The PRC	Printed box	2013	4.4	20
Supplier C	A company principally manufactures and sells micro-motors and electronic parts	The PRC	Electronic parts	2014	3.5	74
Supplier D	A company principally manufactures and sells micro-motors and electronic parts	The PRC	Electronic parts	2015	3.2	4
Supplier E	A company principally produces petrochemicals	The PRC	Plastic resins	2016	2.9	36,281

For the year ended 31 December 2017

Supplier	Principal business	Location	Type of products	Commencement of business relationship with us (Note 1)	Percentage of our Group's total purchase	Scale of operation (Total revenue in million RMB approximately in 2018)
					%	
Supplier A	A company principally manufactures and processes polystyrene resin, synthetic resin, synthetic rubber, fiber and its products	The PRC	Plastic resins	2015	13.2	1,402
Supplier F	A company principally sells plastic raw materials	The PRC	Plastic resins	2016	4.5	100
Supplier B	A company principally prints, manufactures, processes and sells cartons, paper products, packaging products and related products	The PRC	Printed box	2013	4.2	20
Supplier G	A company principally sells printed matter	The PRC	Printed box	2015	4.2	18
Supplier H (Note 2)	A company principally manufactures electronic appliances	The PRC	Electronic parts	2015	3.7	31

For the year ended 31 December 2018 (Note 3)

Supplier	Principal business	Location	Type of products	Commencement of business relationship with us (Note 1)	Percentage of our Group's total purchase	Scale of operation (Total revenue in million RMB approximately in 2018)
					%	
Supplier I	A company principally, among others, sells plastic raw materials	The PRC	Plastic resins	2018	16.9	321
Supplier A	A company principally manufactures and processes polystyrene resin, synthetic resin, synthetic rubber, fiber and its products	The PRC	Plastic resins	2015	10.9	1,402
Supplier J	A company principally sells, among others, polyester materials	The PRC	Plastic resins	2018	6.5	761
Supplier K	A company principally sells, among others, plastic products, plastic raw materials and products	The PRC	Plastic resins	2017	4.8	286
Supplier B	A company principally prints, manufactures, processes and sells cartons, paper products, packaging products and related products	The PRC	Printed box	2013	4.6	20

For the eight months ended 31 August 2019

Supplier	Principal business	Location	Type of products	Commencement of business relationship with us (Note 1)	Percentage of our Group's total purchase	Scale of operation (Total revenue in million RMB approximately in 2018)
					%	
Supplier A	A company principally manufactures and processes polystyrene resin, synthetic resin, synthetic rubber, fiber and its products	The PRC	Plastic resins	2015	26.5	1,402
Supplier B	A company principally prints, manufactures, processes and sells cartons, paper products, packaging products and related products	The PRC	Printed box	2013	8.5	20
Supplier J	A company principally sells, among others, polyester materials	The PRC	Plastic resins	2018	7.6	761
Supplier L	A company principally technologically develops, manufactures, processes and sells electronic parts	The PRC	Electronic parts	2018	5.1	36
Supplier H (Note 2)	A company principally manufactures and sells electronic parts	The PRC	Electronic parts	2015	4.1	31

Notes:

1. Most of our top five largest suppliers during the Track Record Period commenced business with our Group in or after 2015 because (i) our Group expanded our operations in 2015; and (ii) we selected more large scale suppliers in order to improve the quality of our raw materials.

2. Supplier H represents two companies, one of them was deregistered in 2018. The deregistered company and the existing company of Supplier H were controlled by the same individual as to 40% and 100% respectively. One of these companies is one of our top five suppliers in 2017 and was deregistered in 2018. As the other equity holder who holds as to approximately 60% of the previous company intended to retire, such individual established another company in 2018 to clearly delineate from the previous company in terms of shareholding and conducting similar business, which became our top five suppliers for the eight months ended 31 August 2019. These two companies are consolidated for illustrative purpose. During the Track Record Period, our purchase amount from Supplier H amounted approximately RMB2.2 million, RMB4.4 million, RMB4.7 million and RMB4.2 million respectively.

3. During the Track Record Period, our purchases of electronic parts remained relatively consistent and accounted for approximately 26.8%, 32.0%, 23.4% and 23.5% of the total purchases of our Group. Our suppliers of electronic parts were dispersed and we purchased from at least over 60 suppliers of electronic parts at each year/period of the Track Record Period. There was no electronic part manufacturers included in our five largest suppliers in 2018 as (i) our Group utilised stocks of electronic parts left over and stored from previous year in 2018; and (ii) one of our suppliers of electronic parts ranked the seventh largest suppliers in terms of total purchase in 2018, which accounted for our purchase amount of approximately RMB3.6 million, or approximately 2.3% of our total purchase in 2018.

The credit period granted by our top five suppliers to us is within 60 days and the payment method is bank transfer.

As we make purchase from our suppliers on a per order basis, we generally do not enter into long-term procurement agreements with them. Depending on the demand for the products and the stock level of the relevant materials, we source raw materials from our suppliers by way of placing purchase orders with them on a per order basis and the terms of purchases are negotiated for each purchase. The major terms of these purchase orders generally set out product specifications, unit price, quantity, date of delivery and quality standard. As part of our quality control measures, our IQC team would inspect and ensure that the raw materials purchased comply with the relevant sample requirements and customers' specifications.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced nor were we aware of any circumstances leading to contractual claims by our major suppliers.

OUR SUBCONTRACTORS

Depending on the seasonality and the demand for our products, we engaged subcontractors to provide services for certain steps of our production process, such as plastic injection moulding services, assembling services and packaging services, from time to time during the Track Record Period. During the Track Record Period, we engaged 20, 20, 14 and 10 subcontractors and the relevant fees incurred amounted to approximately RMB15.8 million, RMB9.5 million, RMB4.5 million and RMB3.3 million, respectively, representing approximately 12.2%, 5.7%, 2.5% and 2.5% of our cost of sales respectively for the same period, respectively. The subcontracting charges decreased during the Track Record Period as we ceased to engage subcontractors to provide assembling and packaging services which have been undertaken by us internally following our expansion. We have maintained business relationships with our subcontractors for four years on average. Our production department, design, research and development department and quality control department would conduct sampling test on such products once delivered. All of our third party subcontractors were Independent Third Parties during the Track Record Period.

As at the Latest Practicable Date, we entered into legally-binding framework agreement with some of our third party subcontractors that provide plastic injection moulding services. The validity of these framework agreements usually range from one to three years. There is no minimum commitment in providing subcontracting services to our Group as we usually engage our subcontractors for their provision of subcontracting services from time to time during the term of the framework agreement, based on our demand. The framework agreements could either be renewed automatically for one more year upon expiry unless being terminated by either party, or could not be renewed, as the case may be. The framework agreements could also be terminated either by agreement in writing or by the non-defaulting party, should it have the right to terminate such agreement.

During the Track Record Period and up to the Latest Practicable Date, there had not been any breaches of the abovementioned framework agreement by either of us or the respective third party subcontractor. Apart from the above, we did not enter into any framework agreement with other subcontractors during the Track Record Period.

We believe that our arrangements with subcontractors allows us to expand our production capacity and to meet the demand for our products. During the Track Record Period, we did not experience any situation where our third party subcontractors breached the terms of our agreement with them or failed to fulfil our requirements that had a material impact on our operations.

In addition, in respect of our smart hardware, we are only responsible for formulating product design for our smart hardware, while the production thereof are subcontracted to Independent Third Parties.

INVENTORY CONTROL AND WAREHOUSING

A majority of our inventory is stored in our warehouses located in (i) the same building as our Production Plants; and (ii) the warehouse we leased from an Independent Third Party in Shantou. Our inventory primarily comprises raw materials, components and parts, work-in-progress, and finished products.

Our production department identifies items that need to be replenished according to our production plan and schedules to ensure uninterrupted production. Our production department performs stock take and ensures sufficient supply of raw materials in our inventory in order to meet our production plan. As part of our warehouse management policy, our staff checks on damaged or obsolete inventory regularly and reports on our warehouse inventory, which includes information on inventory levels and location, so as to allow us to assess the sales performance of our inventory and to identify slow-moving inventory or products.

Apart from plastic resins, we generally maintain low level of inventory, as we plan our production and delivery schedules based on orders placed by our customers. We generally make bulk purchase of plastic resins at around Chinese New Year each year for production as our overseas customers usually place bulk purchase orders with us from March to May each year. On the other hand, we procure other raw materials based on our production plan and delivery schedules. For some of the materials that have relatively short production time, such as packaging materials, we generally maintain a just-in-time inventory control policy.

COMPETITION

Our Directors believe that the global market of toy, smart toy vehicle and traditional toy vehicle manufacturing industry is fragmented with a large number of local and overseas players. Our Directors consider that competition within the industry is keen and there are numerous competitors operating on different scales across the globe. With highly fragmented market, we may face increasing number of competitors in our target markets and these competitors may have strong financial resources, lower pricing and better business reputation than we do.

Our Directors consider that our Group has established customer base and has been successful in obtaining licensed rights of reputable intellectual properties of automobile manufacturers as well as reputable entertainment characters. Through these, we believe we compete favourably with our competitors. For further details regarding the competitive landscape of the toy manufacturing industry, please refer to the section headed "Industry overview" in this prospectus.

HEALTH, WORK SAFETY AND ENVIRONMENTAL MATTERS

We are subject to certain national and local environmental and safety related laws and regulations. Please refer to the paragraph headed "Laws and regulations concerning environmental protection" under the section headed "Regulatory overview" in this prospectus for further details.

We believe that our production process does not have a significant adverse effect on the environment and that our environmental protection measures are adequate to ensure compliance with all relevant PRC laws and regulations. During the Track Record Period and as at the Latest Practicable Date, as advised by our PRC Legal Advisers, save for the disclosure made in the paragraphs headed "Licences, approvals and permits" and "Legal proceedings and compliance" below, our Group had complied with all laws and regulations in relation to the environmental protection and had obtained all necessary environmental approvals and licences for our operation in the PRC.

For the three years ended 31 December 2018 and the eight months ended 31 August 2019, our cost of compliance with applicable environmental protection laws and regulations amounted to approximately RMB233,700, RMB446,100, RMB88,700 and RMB45,000, respectively. Furthermore, to the best of our Directors' knowledge, no administrative sanctions, penalties or punishments have been imposed upon us for the violation of any relevant environmental laws or regulations during the Track Record Period and up to the Latest Practicable Date. During the Track Record Period, save as disclosed under the sub-paragraph headed "Non-compliance incidents" under the paragraph headed "Legal proceedings and compliance" in this section below, we had not encountered any material non-compliance issues with respect to any applicable laws and regulations on environmental protection and safety or any material complaints from our customers or the public with respect to safety and health issues due to the use of, or any incidents arising from the use of our products. The expected cost of compliance with applicable environmental laws and regulations for the year ended 31 December 2019 is approximately RMB85,000.

We endeavour to ensure our employees are provided with a safe working environment. We have established occupational health and safety policies and implemented various measures, such as (i) conducing healthy and safety-on-the-job training and circulating operation manuals of production process to enhance our employee's awareness of safety and health issues at work; and (ii) periodically inspecting the safety conditions of our production units, to promote occupational health and safety and to ensure compliance with applicable laws and regulations. We consider our workplace a safe environment and workplace injury is relatively rare in our operations. During the Track Record Period and as at the Latest Practicable Date, there was no reported incident of work injury. For the same periods, the total costs for compensation of work injury was minimal. There is no outstanding or pending claims of work injury from our employees as at the Latest Practicable Date. There were no accidents causing death or serious bodily injury in our business operations during the Track Record Period and up to the Latest Practicable Date.

INTELLECTUAL PROPERTY RIGHTS

We rely on a combination of trademark and other intellectual property laws to protect our product design, trade secrets and other intellectual property rights. As at the Latest Practicable Date, we had (i) registered a total of 20 trademarks in the PRC and had applied for the registration of a total of 3 trademarks in the PRC; (ii) registered a total of 52 patents in the PRC and had applied for the registration of a total of 1 patent in the PRC; (iii) registered a total of 6 computer software copyrights in the PRC; (iv) registered a total of 14 product copyrights in the PRC; and (v) registered a total of 8 domain names. Please refer to the sub-paragraph headed "Intellectual property rights of our Group" under the paragraph headed "Further information about the business of our Group" in Appendix IV to this prospectus for details of our major intellectual properties.

For details regarding the licensing arrangements which we have entered into with various licensors, please refer to the sub-paragraph headed "Licensing arrangements with intellectual properties licensors" under the paragraph headed "Our product brands and licensing arrangement" above.

During the Track Record Period, an Independent Third Party filed a lawsuit (the "**IP Infringement Lawsuit**") against us in the United States District Court for the Eastern District of Texas alleging infringement of certain trademarks that they own, unfair competition, trademark dilution and unjust enrichment under federal and Texas law arising from our sale, distribution, and advertising of radio-controlled vehicles under the names "TOPMAXX", "TOPMAXX RACING", "GEARMAXX" and "ROLLERMAXX" (the "**Accused Marks**").

Considering that the IP Infringement Lawsuit could be costly and time-consuming for us to defend, we entered into a settlement agreement with such Independent Third Party to resolve the IP Infringement Lawsuit, whereby, among others, (i) we paid such Independent Third Party a one-off lump sum of US$137,500; and (ii) we cancelled and withdrew and/or terminated all trademark registrations in the U.S. or everywhere else in the world, that we owned that used or consisted entirely or in part of the Accused Marks, or any other terms confusingly similar thereto. As a result, certain of our toy products sub-branded under "TOPMAXX", "TOPMAXX RACING", "GEARMAXX" and "ROLLERMAXX" were subsequently re-branded "TOPMAZ", "TOPMAZ RACING", "GEARMAZ" and "ROLLERMAZ" in 2018 (the "**Re-branding**").

The table below sets out the breakdown of our revenue by our sub-brands during the Track Record Period:

	For the year ended 31 December						For the eight months ended	
	2016		2017		2018		2019	
	RMB'000	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000*	*% of total revenue*
TOPMAXX RACING	38,028	17.8%	46,706	18.0%	—	—	—	—
GEARMAXX	68,832	32.2%	83,442	32.2%	—	—	—	—
ROLLERMAXX	45,017	21.0%	39,490	15.2%	—	—	—	—
TOPMAZ RACING	—	—	—	—	81,448	29.2%	43,760	20.8%
GEARMAZ	—	—	—	—	64,869	23.3%	48,413	23.0%
ROLLERMAZ	—	—	—	—	58,795	21.1%	56,586	26.9%
Total	151,877	71.0%	169,637	65.5%	205,112	73.6%	148,759	70.8%

Having taking into consideration that (i) none of our customers, suppliers or licensors has terminated our business relationship with them after the Re-branding; (ii) there was no delay of delivery of our products to our customers due to the Re-branding; (iii) the amount and one-off nature of the settlement payment; (iv) the names and logo of our sub-brands are only displayed and labelled in the packaging of our products but not on our products and therefore the amount of inventories written down, which represented the cost of covering up the packaging materials with the new sub-brands, was immaterial; and (v) other than the administrative expenses in registering the trademarks of our sub-brands in the future which is expected to be immaterial, we do not expect there to be any further costs to be incurred in the future in relation to the Re-branding, our Directors are of the view that the IP Infringement Lawsuit did not and will not have any material adverse financial or operational impact on our Group.

Save for the IP Infringement Lawsuit, during the Track Record Period and up to the Latest Practicable Date, there had not been any pending or threatened material claims made against us, nor had there been any material claims made by us against third parties, with respect to the infringement of intellectual property rights owned by us or third parties.

As at the Latest Practicable Date, we were not aware of any pending claims by any third party against us for the use of our intellectual property rights in any material aspects. As of the Latest Practicable Date, we were not aware of any infringement by us of intellectual property rights owned by third parties or infringement by third parties of our intellectual property rights in any material aspects.

PROPERTIES

Our owned properties

We occupy certain properties in the PRC for our business operation. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules and they are primarily used for our production plant, offices and staff dormitories.

As at the Latest Practicable Date, we owned four properties for office in the PRC which are all located in Shenzhen with a total gross floor area of approximately 740 sq.m., and one property as our Production Plant I which is situated in Shantou with a gross floor area of approximately 13,000 sq.m.. As at the Latest Practicable Date, all of our owned properties were mortgaged to banks.

As at the Latest Practicable Date, we owned one property under construction which will be used for our production. It is located on the parcel of land of the Production Plant I.

Our leased properties

As at the Latest Practicable Date, we leased two properties, of which one property was used as our Production Plant II, comprising manufacturing workshops, staff dormitories and offices, and the other one was used as warehouse and staff dormitories, in the PRC from a connected person and an Independent Third Party, respectively. All of these leased properties are situated in Shantou, with a total gross floor area of approximately 35,000 sq.m.. Please refer to the paragraph headed "Transaction entered into before Listing which would otherwise constitute a connected transaction" under the section headed "Relationship with our Controlling Shareholders" in this prospectus for further details regarding the terms of the lease of our Group from the connected person.

As at the Latest Practicable Date, we leased two properties, which was used as our office and headquarters in Hong Kong.

INSURANCE

We maintain insurance policies covering our product liability and properties, including our raw materials, production plants, machinery and equipment. We also maintain insurance policies in relation to employees' compensation. We are insured against losses arising from fire, water damage, typhoon and other natural calamities in respect of our production plants. We believe that our insurance coverage is adequate and in line with the industry practice.

We had not made any material claims under our insurance policies and have not experienced any material business interruptions during the Track Record Period and as at the Latest Practicable Date.

During the Track Record Period, and as at the Latest Practicable Date, we had not made and had not been subject to any material insurance claims and/or product liability claims.

EMPLOYEES

As of 31 August 2019, we had 993 full-time employees, of which, 22 of them were in Hong Kong and the rest of them were stationed in the PRC. The following table sets forth the number of our employees by function as of 31 August 2019:

Functions	**Number of employees as at 31 August 2019**
PRC	
Production	799
Design, research and development	78
Quality control	46
Sales and marketing	19
Finance	14
Administration and human resources	12
Management	3
Hong Kong	
Design, research and development	7
Sales and marketing	12
Finance	3
Total	993

Our administration and human resources department recruits our employees through advertisement and PRC recruitment agents. The term of our current agreement with the said employment agent is four years, from November 2018 to November 2022. Pursuant to such agreement, we paid a one-off service fee to the employment agent, and the employment agent placed recruitment advertisement for us. The recruited staff would enter into labour contracts with our Group directly and it is under our Group's employment. We offer remuneration packages to our employees, including salaries, accidental insurance and allowances, depending on their job nature. We have implemented training programmes for our employees to meet different job requirements, such as training on production procedures for our staff at our production department. We believe that these initiatives have contributed to increased employee productivity.

As required by the relevant PRC laws and regulations, we participate in housing fund and various employee social security plans that are organised by applicable local municipal and provincial governments, including housing, pension, medical, work-related injury and unemployment benefit plans, under which we make contributions at specified percentages of the salaries of our employees. Bonuses are generally discretionary and based in part on employee performance and in part on the overall performance of our business.

We believe that we maintain good working relationship with our employees. We had not experienced any significant labour disputes or any difficulty in recruiting staff for our operations which has material adverse effect on our business operations during the Track Record Period.

INTERNAL CONTROL

In preparation for Listing, our Group has engaged an independent third party consultant (the "**Internal Control Consultant**") to perform a review over selected areas of our internal controls over financial reporting in July 2019 (the "**Internal Control Review**"), resulting in the identification of recommendations for improvement. The scope of the Internal Control Review performed by the Internal Control Consultant was agreed between us, the Sole Sponsor and the Internal Control Consultant. The selected areas of our internal controls over financial reporting that were reviewed by the Internal Control Consultant included entity-level controls and business process level controls, including revenue and receivables, purchases and payables, fixed assets, treasury, financial reporting, payroll and general controls of information technology.

The Internal Control Consultant performed the follow-up reviews in September 2019 to review the status of the management actions taken by the Group to address the findings of the Internal Control Review (the "**Follow-up Review**"). The Internal Control Consultant did not have any further recommendation in the Follow-up Review except for some corporate governance matters such as the establishment of the required terms and reference of the Board and its committees (including the appointment of the required Directors), which are expected to be completed by our Group before Listing.

LICENCES, APPROVALS AND PERMITS

Licences, approvals and permits

As at the Latest Practicable Date, we obtained the following licences, permits and approvals which are material to our business operation:

Licence/permit/approval	Issuing authorities	Holding entity	Expiry date
Pollutant discharge permit for Production Plant I	Shantou Chenghai Environmental Protection Bureau	Kidztech Intelligent	27 June 2021
Registration Certificate of the Customs of the People's Republic of China for Customs Declaration Entities	Chenghai Customs of the PRC	Kidztech Intelligent	Long term
China Compulsory Certificates(Note)	Certification Center of Light Industry Council	Kidztech Intelligent	Varying between 9 March 2021 (earliest) and 12 February 2024 (latest)(Note)
Registration Certificate of Foreign Trade Operators	Shantou Foreign Trade Operator Registration Authority	Kidztech Intelligent	Long term

Note: We obtained 23 China Compulsory Certificates for our various toy products from Certification Center of Light Industry Council as at the Latest Practicable Date. The relevant expiry dates vary, depending on the respective China Compulsory Certificates.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, save as disclosed below, we have obtained all material licences, permits and approvals which are necessary to our business operations and we are not aware of any legal impediment to the renewal of the material licences, permits and certificates of our Group.

As at the Latest Practicable Date, we have not obtained pollutant discharge permit for Production Plant II. As advised by our PRC Legal Advisers, the previous Administrative Measures of Guangdong Province for Pollutant Discharge Permit had been abolished, thus the environmental protection authority confirmed that there was no need to apply for pollutant discharge permit in accordance with such measures. Instead, according to the Measure for the Administration of Emission Permits (Trial Implementation) and catalogue of Classified Management of Emission Permits of Fixed Pollution Sources (2019 Edition), and confirmed by the environmental protection authority, any manufacturers that are engaged in production of plastic products in the PRC should apply for pollutant discharge permit by the end of 2020. As advised by our PRC Legal Advisers, the risk of Kidztech Intelligent being subject to administrative penalty by the environmental protection authority is low as the time limit for manufacturers that are engaged in production of plastic products to obtain pollutant discharge permit has not expired.

AWARDS AND CERTIFICATIONS

We have been granted a number of awards, recognitions and certifications including the following:

Year of award	Award title	Presenter(s)
2017 & 2018	One of The World's Leading Licensees	License Global Magazine
2018	Best Remote Controlled Toys Manufacturer — Hong Kong	APAC Insider Magazine
2018	Provincial Enterprise Technology Center (省級企業技術中心)	— The Economic & Information Commission of Guangdong (廣東省經濟和信息化委員會); — Department of Finance of Guangdong Province (廣東省財政廳); — Guangdong Provincial Local Taxation Bureau (廣東省地方税務局); — Guangdong Provincial Tax Service, State Taxation Administration (廣東省國家税務局); and — The General Administration of Customs Guangdong Branch of the PRC (海關總署廣東分署)
2018	High Growth Small-medium sized enterprise (高成長中小企業)	The Economic & Information Commission of Guangdong (廣東省經濟和信息化委員會)

LEGAL PROCEEDINGS AND COMPLIANCE

Legal proceedings

To the best knowledge of our Directors, as of the Latest Practicable Date, there were no legal proceedings or claims currently existing, pending or threatened against any member of our Group that we consider will have a material adverse effect on our financial conditions or results of operation.

Legal compliance

Non-compliance incidents

As most of our operations are in the PRC, PRC laws, rules and regulations are of material significance to our Group. Please refer to the section headed "Regulatory overview" of this prospectus for a brief overview of the PRC laws, rules and regulations of relevance to our business and operations in the PRC. We confirm that, as at the Latest Practicable Date, save as disclosed below, there were no material breaches or violations of the laws or regulations applicable to us that would have a material adverse impact on our business, results of operation and financial conditions taken as a whole.

Below sets forth summaries of certain incidents of historical non-compliance with applicable laws and regulations during the Track Record Period. Our Directors believe that these incidents of non-compliance, whether individually or collectively, will not have a material impact on our operational and financial performance.

(1) Failure to make social insurance contributions in full compliance with the Social Insurance Law

Details of non-compliance incident

During the Track Record Period, our PRC subsidiaries did not fully comply with provisions of the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) (the "**Social Insurance Law**") in respect of social insurance contributions for its employees.

The amount of social insurance payment underpaid by (a) our subsidiaries located in Shantou (substantially attributable to Kidztech Intelligent) for each of the years ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2019 were approximately RMB2.0 million, RMB4.1 million, RMB5.7 million and RMB4.4 million, respectively; and (b) our PRC subsidiaries located in Shenzhen for each of the years ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2019 were approximately RMB149,000, RMB220,000, RMB159,000 and RMB99,000, respectively.

Reasons

(i) Our PRC subsidiaries had not made social insurance contributions based on the actual salary of their respective employees but with reference to the statutory minimum salary approved by the relevant local authorities;

(ii) Enrollment of certain new employees who were subject to probation periods had not been completed in the month they joined our Group;

(iii) Certain employees of these PRC subsidiaries were workers who came from towns or rural areas outside the location of these PRC subsidiaries and had their residence registered where they came from. These workers claimed that they paid their contributions for social insurance, new rural cooperative medical insurance (新型農村合作醫療保險) and/or new rural pension insurance (新型農村社會養老保險) at their place of residence or were not willing to participate in the social welfare schemes of the city where they temporarily resided in as such contributions could not be easily transferred among cities within China under the current social security system in China; and

(iv) Certain employees of our PRC subsidiaries were reluctant and voluntarily gave up making social insurance contributions in full.

Possible legal consequences and impact

According to the Social Insurance Law and as advised by our PRC Legal Advisers, employer who fails to make social insurance contributions in full, may be ordered to make the payment or make up the difference within the stipulated period and may be charged a daily surcharge equivalent to 0.05% of the overdue payment from the date on which the payment is overdue. If the payment is not made within the stipulated period, a fine from one to three times the amount of overdue payment may be imposed.

Remedial actions and potential impact on our Group

We have received confirmations from the Shantou Chenghai Human Resources and Social Insurance Bureau (汕頭市澄海區人力資源和社會保障局) and the Shenzhen Social Insurance Bureau (深圳市社會保險基金管理局) (collectively, the "**Social Insurance Bureaus**"), being the competent authorities, as confirmed by our PRC Legal Advisers (the "**Social Insurance Confirmations**") confirming that during the Track Record Period, these PRC subsidiaries had never been subject to any administrative penalty, due to non-compliance with the relevant laws and regulations concerning social insurance and labour rights.

In an interview with the social insurance inspection and enforcement team of the Shantou Social Insurance Bureau and the local branch of the State Taxation Administration in September 2019 (the "**Shantou Social Insurance Interview**"), it was confirmed that, among others, (a) the authorities were fully aware of the situations of these subsidiaries located in Shantou; (b) situations similar to that of these subsidiaries located in Shantou are common in Shantou and are in compliance with the local practice; (c) the Shantou Social Insurance Bureau and the local branch of the State Taxation Administration had not received any demand for making up shortfall in social insurance contributions; (d) if the employees are unwilling to pay their underpaid share of social insurance contributions, these subsidiaries would be unable to pay their underpaid amount as well; and (e) the current practice of payment of social insurance contributions undertaken by these subsidiaries located in Shantou is in compliance with the actual law enforcement practice, and these subsidiaries could continue to pay social insurance contributions based on current local practice and policy. As advised by our PRC Legal Advisers, the Shantou Social Insurance Bureau and local branch of the State Taxation Administration are the competent governmental authorities with regard to the social insurance contributions of our subsidiaries located in Shantou.

We have obtained written confirmations from all existing employees involved in situation of underpayment of social insurance premium or non-participation in social insurance scheme confirming, among others, that they voluntarily gave up payments for their social insurance premium. In respect of our new employees in the PRC, we will encourage them to participate in the social insurance scheme, and obtain relevant written confirmation from any employee who refuses to do so.

As at the Latest Practicable Date, we had not received any notice or demand from any of the Social Insurance Bureaus or other competent authorities ordering us to make retrospective payments or any differences of the payments for the social insurance contributions. We had not received any complaint from our employees and were not aware of any employees lodging any complaint to the Social Insurance Bureaus or other competent authorities or initiating any arbitration or court proceedings against our Group in relation to its failure to contribute to the social insurance fund.

On 13 September 2018, the General Office of the State Administration of Taxation (國家稅務總局辦公廳) issued the Notice on Working Steadily and Orderly on the Collection and Administration of Social Insurance Contributions (關於穩妥有序做好社會保險費征管有關工作的通知), which expressly requires all tax authorities that had already been collecting social insurances to keep the existing collection policies unchanged, and not to undertake unauthorised investigations on the shortfall of social insurance contributions accrued in the previous years.

Based on the above, our PRC Legal Advisers are of the view that there is remote risk that these PRC subsidiaries will be penalised or ordered to make retrospective payments or shortfall to the social insurance fund as a result of their failure to fully make social insurance contributions for all of their employees.

On the basis of the advice from our PRC Legal Advisers, as the risk of these PRC subsidiaries being penalised as a result of their failure to fully make social insurance contributions for all of their employees is remote, no provision were made.

In addition, our Directors are of the view that the non-compliance incident of these PRC subsidiaries in respect of the social insurance contributions will not have a material adverse impact on our Group's operations and financial conditions.

Internal control measures to ensure ongoing compliance

We have implemented a policy on managing social insurance for our employees. We have also designated experienced human resources staff to process matters relating to social insurance contribution matters including all filing of documents, payment of contributions and updating the relevant government policies and regulations, including the applicable bases for calculation of the social insurance contributions, to our internal guidelines.

(2) Failure to make housing provident fund contributions in full compliance with the Housing Provident Fund Regulations

Details of non-compliance incident

During the Track Record Period, certain of our PRC subsidiaries did not fully comply with the Regulations on the Administration of Housing Provident Fund of the PRC (《住房公積金管理條例》) (the "**Housing Provident Fund Regulations**") as they failed to fully make housing provident fund contributions for all of their employees.

The amount of outstanding housing fund contribution of (a) our PRC subsidiaries located in Shantou (substantially attributable to Kidztech Intelligent) for each of the years ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2019 were approximately RMB550,000, RMB601,000, RMB1.1 million and RMB1.1 million, respectively; and (b) our subsidiaries located in Shenzhen for each of the years ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2019 were approximately RMB10,000, RMB57,000, RMB66,000 and RMB52,000, respectively.

Reasons

(i) Enrollment of certain new employees who were subject to probation periods had not been completed in the month they joined our Group;

(ii) Certain employees of these PRC subsidiaries were workers who owned their dwellings or rural house sites in their place of residence, and were reluctant to bear their portion of contributions and thus had voluntarily given up housing provident fund contributions to be made on their behalf by these PRC subsidiaries, which would be difficult to be utilised when they return to their place of residence; and

(iii) Certain employees of our PRC subsidiaries were reluctant and voluntarily gave up making housing provident fund contributions in full.

Possible legal consequences and impact

According to the Housing Provident Fund Regulations and as advised by our PRC Legal Advisers, if an employer fails to complete the registration and open a housing provident fund account for its employees, the relevant housing provident fund authority is entitled to order the employer to do so within a prescribed time limit. If the employer fails to do so within such prescribed time limit, it may be subject to a fine in the range of RMB10,000 to RMB50,000. The housing provident fund authority may also order the employer to pay the outstanding housing provident fund within a prescribed time limit. If it fails to do so within such prescribed time limit, the housing provident fund authority may seek an order for payment from the relevant PRC court.

Remedial actions and potential impact on our Group

We have received confirmations from the Shantou Housing Provident Fund Management Centre (汕頭市住房公積金管理中心) and Shenzhen Housing Provident Fund Management Centre (深圳市住房公積金管理中心) (collectively, the "**Housing Provident Fund Management Centres**"), being the competent governmental authority of our subsidiaries located in Shantou and Shenzhen respectively, as advised by our PRC Legal Advisers (the "**Housing Provident Fund Confirmations**") confirming that these PRC subsidiaries had never been subject to any administrative penalty due to non-compliance with the relevant laws and regulations concerning housing provident fund.

In an interview with the Shantou Housing Provident Fund Management Centre in September 2019 (the "**Shantou Housing Provident Fund Interview**"), it was confirmed that, among others, (a) the authorities were fully aware of the situations of these subsidiaries located in Shantou; (b) situations similar to that of these subsidiaries located in Shantou are common in Shantou; (c) the PRC subsidiaries located in Shantou had never been subject to any administrative penalty or investigation due to non-compliance with the laws and regulations concerning housing provident fund and are not required to pay up any shortfall in housing provident fund (including late payment); (d) the Shantou Housing Provident Fund Management Centre currently has no plan to demand the payment of any shortfall in housing provident fund contributions; (e) if the employees are unwilling to pay their underpaid share of housing provident fund contributions, these subsidiaries would be unable to pay their underpaid amount as well; and (f) the current practice of payment of housing provident fund contributions undertaken by these subsidiaries located in Shantou is in compliance with the actual law enforcement practice, and on the premises that there are no material changes to relevant national policies, these subsidiaries could continue to pay housing provident fund based on current local practice and policy.

As at the Latest Practicable Date, we had not received any notice or demand from the Housing Provident Fund Management Centres or other competent authorities ordering us to make payments or any shortfall to the housing provident fund. We had not received any complaint from employees and were not aware of any employees lodging any complaint to the Housing Provident Fund Management Centres or other competent authorities or initiating any arbitration or court proceedings against these PRC subsidiaries in relation to their failure to fully contribute to the housing provident fund.

Based on the above, our PRC Legal Advisers are of the view that there is a remote risk that these PRC subsidiaries will be ordered to pay the outstanding housing provident fund contributions or be penalised as a result of their failure to make contribution to housing provident fund in respect of all of its employees.

On the basis of the advice from our PRC Legal Advisers, as the risk of these PRC subsidiaries being penalised or ordered to make retrospective payments or any shortfall to the housing provident fund as a result of their failure to make housing provident fund contributions for their employees is remote, no provision were made.

Based on the above, our Directors are of the view that the non-compliance incident of these PRC subsidiaries in respect of the housing provident fund contributions will not have a material adverse impact on our Group's operations and financial conditions.

Internal control measures to ensure ongoing compliance

We have implemented a policy on managing housing provident fund contribution for our employees. We have also designated experienced human resources staff to process matters relating to housing provident fund contribution matters including all filing of documents, payment of contributions and updating the relevant government policies and regulations, including the applicable bases for calculation of the housing provident fund contributions, to our internal guidelines.

(3) Failure in completing environmental impact assessment before construction and construction of the matching environment protection facilities and the inspection and acceptance formalities before the operation of the Production Plant II

Details of non-compliance incident

Our Production Plant II has failed to complete (i) environmental impact assessment before its construction; and (ii) construction of the matching environmental protection facilities and the inspection and acceptance formalities before commencement of the operation of the Production Plant II.

Reasons

The omission was primarily due to our staff's lack of professional knowledge of the relevant legal requirements.

Possible legal consequences and impact

In accordance with the Opinions on the Application of Laws against "Unauthorised Construction" of Construction Projects (《環境保護部關於建設項目"未批先建"違法行為法律適用的意見》) issued by the Ministry of Environmental Protection, (i) administrative punishments in respect of "unauthorised construction" shall not be imposed by the relevant environmental protection authority, if such "unauthorised construction" has not been identified within two years since the date of completion of construction; (ii) construction units should be subject to penalty by law for their breach of the "Three Simultaneous" (i.e. design, construction and commence operation) for environment protection facilities and the system of environmental inspection on completion of construction at the same time; and (iii) where the "unauthorised construction" has not been identified within two years from the date of completion of the construction act and no administrative punishment has been imposed, and the construction unit has voluntarily submit the environmental impact report and report form to the environmental protection authority for review, the competent environmental protection authority shall accept the application and issue acceptance in accordance with the law. If the requirements for approval of environmental impact assessment are not met, the competent environmental protection authority may issue orders to restore the original conditions before the construction.

According to the provisions of Article 29 of the Law of Administrative Penalty (《行政處罰法》), if the non-compliance act is not identified within two years, no administrative penalty will be given.

In accordance with the Regulations on the Administration of Construction Project Environmental Protection (《建設項目環境保護管理條例》), where a construction project commences production and operation prior to completing the construction of the matching environmental protection facilities and the relevant environmental protection inspection and acceptance formalities, the relevant government authority at or above the country level may order to make correction within a stipulated period, and a fine of RMB200,000 up to RMB1,000,000 may be imposed or a fine of more than RMB1,000,000 and less than RMB2,000,000 for delay in making such corrections may be imposed. Construction projects causing serious environmental pollution or ecological damage may be ordered to terminate production or use.

Remedial actions and potential impact on our Group

As remedial actions, we had subsequently completed environmental impact assessment in August 2019 and construction of matching environmental protection facilities and the inspection and acceptance formalities for the Production Plant II in October 2019.

In respect of the failure to complete environmental impact assessment before construction, our PRC Legal Advisers are of the view that, since (i) the Production Plant II has been existed for over two years since its completion of construction; and (ii) we had subsequently completed the environmental impact assessment formalities in August 2019, the competent authority will not impose penalties on us due to the "unauthorised construction" of the Production Plant II.

In respect of Kidztech Intelligent carrying out operation in the Production Plant II before the completion of construction of the matching environmental protection facilities and the inspection and acceptance formalities, as advised by our PRC Legal Advisers, the local government may impose fines of RMB200,000 up to RMB1 million on us for such non-compliance incident.

Our Controlling Shareholders have undertaken to indemnify us against any fines or penalties that may be imposed on us and any other monetary damages incurred as a result of the non-compliance incident. Although our Controlling Shareholders have already undertaken to indemnify us, we had made provisions in the amount of RMB1 million as of 31 August 2019 in our financial statements in respect of such potential liabilities.

Having considered that the non-compliance has been rectified and that we have subsequently completed the environmental protection inspection and acceptance formalities for the Production Plant II, our Directors considered that such non-compliance will not have a material operational impact on us.

Internal control measures to ensure ongoing compliance

We have maintained a list of certificates, licences, permits and procedures that are required in order for us to use lands and construct buildings and will update this list when the relevant laws and regulations have changed based on requirements of the local authorities and advice given to us by our external legal adviser(s) from time to time.

Other internal control measures to ensure ongoing compliance

In order to continuously improve our corporate governance and internal control and to prevent recurrence of non-compliance in the future, we have adopted the following measures:

- we have established a series of internal control policies, which have been reviewed and approved by our management and our Board, to improve our internal control systems and to ensure our compliance the Listing Rules and the relevant laws in the PRC and Hong Kong;

- we have taken remedial measures to address certain deficiencies in our internal control systems, including monitoring the ongoing compliance with the internal control measures put in place;

- we will engage appropriate external legal adviser(s) and/or institutions and/or consultants to advise, update the knowledge of and/or provide trainings to our Directors, senior management and/or relevant employees on the relevant laws and regulations, including changes thereto, which may affect our business operations;

- when necessary, we will engage external professionals, such as auditors, internal control adviser, external legal adviser(s) and other advisers to render professional advice as to compliance with statutory and regulatory requirements, as applicable to our Group from time to time; and

- our audit committee, comprising three independent non-executive Directors, will continuously provide our Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of our Group and oversees the audit process and performs other duties and responsibilities as assigned by our Directors.

Indemnity from our Controlling Shareholders in relation to the non-compliances

Our Controlling Shareholders have entered into the Deed of Indemnity whereby our Controlling Shareholders have agreed to indemnify our Group, subject to the terms and conditions of the Deed of Indemnity, in respect of, among others, any damages, losses, liabilities, claims, fines, penalties, orders, expenses and costs, or loss of profits, benefits which are or become payable or suffered by us directly or indirectly as a result of and in connection with any non-compliance(s) of our Group with all applicable laws, rules or regulations on or before the Listing Date. Please refer to the sub-paragraph headed "Tax, estate duty and other indemnities" under the paragraph headed "Other information" in Appendix IV to this prospectus for further details of the Deed of Indemnity.

Views of our Directors and the Sole Sponsor

Based on the above, our Directors are of the view that the non-compliance incidents were due to inadequate understanding of the regulatory requirements of our staff and did not involve any element of fraud or dishonesty and we have taken all reasonable steps to establish a proper internal control system to prevent future non-compliance with the relevant laws and regulations. Our Directors (including the independent non-executive Directors) are satisfied, and the Sole Sponsor concurs that the above non-compliance incidents would not affect the suitability of our Directors under Rule 3.08 and Rule 3.09 of the Listing Rules on the following bases:

- the past non-compliance incidents were mainly due to inadequate understanding of the regulatory requirements of our staff and do not involve any dishonesty on the part of our Directors or impugn on their integrity;

- our Directors have not obtained any personal benefit directly or indirectly from those non-compliance incidents;

- no fraudulent activities were involved in those non-compliance incidents; and

- remedial internal control measures have been adopted to address certain deficiencies in our internal control systems, including monitoring the ongoing compliance with the internal control measures, to prevent further incidents of non-compliance and to ensure our compliance with the Listing Rules and the relevant laws in the PRC and Hong Kong.

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Global Offering (but 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 of the Adjustment Options), our Controlling Shareholders, namely Mr. Yu and his spouse, Ms. Chen, through their investment holding company, Top Synergy, will be entitled to exercise voting rights of approximately 39.80% of the total issued share capital of our Company. Accordingly, Mr. Yu, Ms. Chen and Top Synergy, which constitute a group of controlling shareholders of our Company, will continue to be our Controlling Shareholders upon Listing.

Delineation of Business

Each of our Controlling Shareholders and Directors confirms that he/she/it does not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with the business of our Group and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

To ensure that competition will not exist in the future, our Controlling Shareholders have entered into the Deed of Non-competition in favour of our Company (for ourselves and as trustee for and on behalf of our subsidiaries from time to time) to the effect that they will not, and will procure their respective close associates not to, directly or indirectly, participate in or hold any right or interest, or otherwise be involved in, or interested in any business which may be in competition with our Group's business. Please refer to the paragraph headed "Deed of Non-competition" in this section below for further details.

INTERESTS OF OUR CONTROLLING SHAREHOLDERS IN OTHER BUSINESS

1. Qianhai Huangcheng

Qianhai Huangcheng is a company owned by Mr. Yu and Ms. Chen as to 50% equity interest each, and an investment holding vehicle which held 5% equity interest in Kidztech Intelligent before our Reorganisation. It has since been dormant after completion of our Reorganisation.

2. Chenghai Changxing

Chenghai Changxing is a company established in the PRC and its equity interest is held as to 50% each by Ms. Chen and Ms. Chen Shuying (陳淑瑩), the mother of Mr. Yu. It engages in manufacturing and sale of paper products and is the registered land use rights owner of the Production Plant II. Please refer to the sub-paragraph headed "Factory Tenancy Agreement" under the paragraph headed "Transaction entered into before Listing which would otherwise constitutes a connected transaction" in this section below for further details of the rental arrangement.

Our Controlling Shareholders have considered not to include Qianhai Huangcheng and Chenghai Changxing as part of our Group after taking into consideration that:

(i) Qianhai Huangcheng is an investment holding vehicle established solely for holding the equity interest in Kidztech Intelligent and has been dormant since completion of our Reorganisation; and

(ii) the business of Chenghai Changxing is different from that of our Group's principal business; therefore it is not expected to compete, directly or indirectly, with the business of our Group.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS AND THEIR CLOSE ASSOCIATES

We believe that we are capable of carrying on our business independently of our Controlling Shareholders and their respective close associates (other than our Group) after Listing for the following reasons:

Management independence

Our Board comprises three executive Directors, one non-executive Director and three independent non-executive Directors. Although Mr. Yu is an executive Director and also a Controlling Shareholder, our management and operational decisions are made by all our executive Directors and senior management, most of whom have served our Group for a long time and all of whom have substantial experience in the industry in which we are engaged and/or in their respective fields of expertise. The balance of power and authority is ensured by the operation of our senior management and our Board. Please refer to the section headed "Directors and senior management" of this prospectus for more details.

Each of our Directors is aware of his/her fiduciary duties as a Director which require, among others, that he/she must act for the benefit and in the best interests of our Company and not allow any conflict between his/her duties as a Director and his/her personal interests. In addition, we believe that our independent non-executive Directors can bring independent judgement to the decision-making process of our Board. Please refer to the paragraph headed "Corporate governance measures" in this section below for further details. Based on the above, our Directors are satisfied that our Board as a whole, together with our senior management team, is able to perform the managerial role in our Group independently.

Operational independence

Although our Controlling Shareholders will retain a controlling interest in our Company after Listing, we have full rights to make all decisions regarding, and carry out, our business operations independently. We have established our own organisational structure and each department is assigned to specific areas of responsibilities. We are also in possession of all necessary relevant licences, approvals and certificates to carry on our business and we have sufficient operational capacity in terms of capital and employees to operate and manage our business independently. We do not rely on our Controlling Shareholders or his/her/its close associates for our operations. We have independent access to suppliers and an independent management team (including our Directors and senior management) to handle our daily operational work.

Based on the above, our Directors are satisfied that there is no operational dependence by us on our Controlling Shareholders and our Group is able to operate independently of our Controlling Shareholders after Listing.

Financial independence

We have established our own finance department with a team of financial staff, who are responsible for financial control, accounting and reporting function of our Company. We can make financial decisions independently and our Controlling Shareholders do not intervene with our use of funds. In addition, save as disclosed below, we have been and are capable of obtaining financing from independent third parties without relying on any guarantee or security provided by our Controlling Shareholders or his/her/its close associates.

During the Track Record Period, a member of our Group was provided with bank loan facilities secured by personal guarantees provided by our Controlling Shareholders, details of which are set out in Note 27 to the Accountant's Report in Appendix I to this prospectus. Our Directors confirm that confirmations have been obtained from the relevant banks and that the said personal guarantees will be fully released and replaced by corporate guarantees to be provided by a member of our Group before or upon Listing. Accordingly, we believe we are able to maintain financial independence from our Controlling Shareholders and their respective close associates.

TRANSACTION ENTERED INTO BEFORE LISTING WHICH WOULD OTHERWISE CONSTITUTES A CONNECTED TRANSACTION

We have entered into the following transaction with Chenghai Changxing which will, upon Listing, become our connected person. The transaction was entered into before Listing and is accounted for as one-off in nature under HKFRS 16. If this transaction were entered into after Listing, such transaction would have constituted a connected transaction for our Group.

Factory Tenancy Agreement

On 5 April 2017, a factory tenancy agreement was entered into between Kidztech Intelligent (as tenant) and Chenghai Changxing (as landlord) (the "**Factory Tenancy Agreement**"), in relation to the leasing of the Production Plant II, with a floor area of approximately 19,689 sq.m..

The term of the Factory Tenancy Agreement is from 1 August 2015 to 31 July 2020. The rental payable to Chenghai Changxing by Kidztech Intelligent is RMB98,446.32 per month, based on a rent of RMB5 per sq.m. The total amount of rental paid by Kidztech Intelligent to Chenghai Changxing under the Factory Tenancy Agreement was approximately RMB1.2 million, RMB1.2 million, RMB1.2 million and RMB0.8 million for the three years ended 31 December 2016, 2017, 2018 and the eight months ended 31 August 2019, respectively.

Chenghai Changxing is a company owned by Ms. Chen, one of our Controlling Shareholders, as to 50% and Ms. Chen Shuying (陳淑瑩), mother of Mr. Yu, our chairman, executive Director and chief executive officer, as to 50%. Chenghai Changxing is therefore a connected person of our Company for the purpose of the Listing Rules.

Our Group has consistently adopted HKFRS 16 to our Group's combined financial statements throughout the Track Record Period, pursuant to which, at the commencement date of a lease, our Group as lessee shall recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Accordingly, the lease transaction under the Factory Tenancy Agreement would be regarded as an acquisition of an asset by the tenant for the purpose of the Listing Rules.

Although the Factory Tenancy Agreement was subsisting as at the Latest Practicable Date, and we expect to make further payments to Chenghai Changxing pursuant to the terms of the Factory Tenancy Agreement, given the Factory Tenancy Agreement was entered into prior to Listing and the transaction thereunder is accounted for as one-off in nature under HKFRS 16, the transaction (including further rental payments to be made by us pursuant to the terms of the Factory Tenancy Agreement) will not be classified as a notifiable transaction under Chapter 14 of the Listing Rules or connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules, and will not be subject to any of the reporting, announcement, circular and independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules. In the event of any material changes to the terms and conditions of the Factory Tenancy Agreement, we shall comply with Chapters 14 and 14A of the Listing Rules (as the case may be) in respect of such changes as and when appropriate, including, where required, seeking independent Shareholders' approval prior to effecting such changes. Following Listing, in case we renew the Factory Tenancy Agreement with Chenghai Changxing, we shall comply with Chapters 14 and 14A of the Listing Rules (as the case may be) as and when appropriate.

Our Directors (including our independent non-executive Directors), having taking into account the opinion of the property valuer which is an Independent Third Party on the rental in respect of the Factory Tenancy Agreement comparable to the prevailing market rents for comparable properties in a similar location, confirm that the transaction contemplated under the Factory Tenancy Agreement is in the ordinary and usual course of business of our Group, on normal commercial terms or better, fair and reasonable and in the interests of our Company and Shareholders as a whole.

DEED OF NON-COMPETITION

To ensure that direct competition will not develop between us and the activities of our Controlling Shareholders in the future and to avoid potential conflict of interest between our Controlling Shareholders and our Group, each of our Controlling Shareholders has agreed to provide a non-competition undertaking in our favour, the principal terms of which are described below. Each of our Controlling Shareholders has entered into the Deed of Non-competition in favour of our Company (for ourselves and as trustee for and on behalf of our subsidiaries from time to time), pursuant to which each of our Controlling Shareholders has jointly and severally undertaken to our Company (for ourselves and as trustee for and on behalf of our subsidiaries from time to time) that they shall not, and shall procure that their associates and/or companies controlled by them (except any members of our Group) shall not, whether directly or indirectly, carry on, participate in, engage, acquire any right or interest in or render any services to or otherwise be interested, involved or engaged in or connected with (in each case, whether as a shareholder, partner, agent, consultant, employee or otherwise, and whether for profit, reward or otherwise) any business which is in competition with or similar to, or likely to be in competition with, directly or indirectly, the existing business activity of any member of our Group and any other new business activities undertaken by our Group from time to time after the Listing Date (the "**Restricted Business**").

The above undertaking does not apply to:

(i) any interests in the shares of any member of our Group; or

(ii) interests in the shares of a company other than our Company whose shares are listed on a recognised stock exchange provided that:

(a) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 5% of that company's consolidated turnover or consolidated assets, as shown in that company's latest audited accounts; or

(b) the total number of the shares held by our Controlling Shareholders and/or their respective close associates in aggregate does not exceed 5% of the issued shares of that class of the company in question and such Controlling Shareholders and/or their respective close associates are not entitled to appoint a majority of the directors of that company and at any time there should exist at least another shareholder of that company whose shareholdings in that company should be more than the total number of shares held by our Controlling Shareholders and their respective close associates in aggregate; and

(c) our Controlling Shareholders and/or their respective close associates do not have the control over the board of such company.

If any investment or other business opportunity relating to our business (the "**Business Opportunity**") is identified by our Controlling Shareholders or their associates and/or companies controlled by them, they (i) shall refer such Business Opportunity to our Company, grant a right of first refusal to our Company to take up such Business Opportunity and procure that such Business Opportunity is offered to our Company on terms no less favourable than the terms on which such opportunity is offered to our Controlling Shareholders and/or his/her/its associates; and (ii) shall not and shall procure his/her/its associates not to pursue such Business Opportunity unless such opportunity is rejected by our Company, written approval is obtained from a majority of our independent non-executive Directors, and the principal terms of which he/she/it, their respective associates or companies controlled by them pursue such opportunity are no more favourable than those made available to our Company and such terms being fully disclosed to our Company prior to consummation of such opportunity.

Pursuant to the Deed of Non-competition, the above restrictions would only cease to have effect on the earliest of the date on which our Controlling Shareholders cease to hold directly or indirectly in aggregate 30% or more of the entire issued share capital of our Company, or otherwise cease to be Controlling Shareholders or our Shares cease to be listed and traded on the Stock Exchange.

Further, our independent non-executive Directors will review, on an annual basis, the compliance of our Controlling Shareholders with the Deed of Non-competition (in particular, the right of first refusal relating to any Business Opportunity) and our Company will disclose findings or decisions on matters reviewed by our independent non-executive Directors relating to compliance with and the enforcement of the Deed of Non-competition in our annual report or by way of announcement to the public.

CORPORATE GOVERNANCE MEASURES

Our Directors believe that there are adequate corporate governance measures in place to manage potential conflicts of interest after Listing. In particular, we will implement the following measures:

- as part of our preparation for the Global Offering, we have amended our Articles to comply with the Listing Rules. In particular, our Articles provides that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his/her close associates has a material interest nor shall such Director be counted in the quorum present at the meeting;

- a Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with our interest and absent himself/herself from the board meetings on matters in which such Director or any of his/her close associates have a material interest, unless the attendance or participation of such Director at such meeting of our Board is specifically requested by a majority of our independent non-executive Directors;

- we are committed that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors). We have appointed one non-executive Director and three independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business and/or other relationship which could interfere in any material manner with the exercise of their independent judgement and will be able to provide an impartial and external opinion to protect the interests of our public Shareholders. Please refer to the paragraph headed "Independent non-executive Directors" in the section headed "Directors and senior management" of this prospectus for details of our independent non-executive Directors;

- in the event that our independent non-executive Directors are requested to review any conflict of interests circumstances between our Group on the one hand and our Controlling Shareholders and/or our Directors on the other, our Controlling Shareholders and/or our Directors shall provide our independent non-executive Directors with all necessary information and our Company shall disclose the decisions of our independent non-executive Directors either through its annual report or by way of announcements; and

- we have appointed CMBC International Capital Limited as our compliance adviser, which will, upon our consultation, provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules, including various Listing Rules requirements relating to directors' duties and corporate governance.

DIRECTORS

Our Board currently consists of seven Directors, comprising three executive Directors, one non-executive Director and three independent non-executive Directors. Our executive Directors and senior management are involved in the day-to-day management of our business. The following table sets forth certain information in respect of members of our Board:

Name	Age	Date of joining our Group	Date of appointment as Director	Position	Brief description of roles and responsibilities	Relationship with other Directors or senior management
Executive Directors						
Yu Huang (余煌)	39	June 2009	25 October 2019 [Note 1]	Chairman of our Board, executive Director and chief executive officer of our Group	The formulation of the overall development strategies, and financial and business plans of our Group	N/A
Pui Lik Leung Kenny (貝烈亮)	49	July 2011	25 October 2019 [Note 1]	Executive Director and deputy general manager	Responsible for managing the sales function of our Group, which covers sales, accounts management, branding and marketing	N/A
Ni Yanlong (倪彥龍)	43	August 2017	1 November 2019	Executive Director and deputy general manager	Responsible for managing the administrative, public relations and human resources functions of our Group	N/A
Non-executive Director						
Zheng Jingyun (鄭靜雲)	45	April 2016	1 November 2019	Non-executive Director	Responsible for advising on business strategy of our Group	N/A
Independent non-executive Directors						
He Weidong (何衛東)	57	September 2017 [Note 2]	13 February 2020	Independent non-executive Director	The supervision and provision of independent judgement to our Board	N/A
Liu Man (劉曼)	34	September 2017 [Note 2]	13 February 2020	Independent non-executive Director	The supervision and provision of independent judgement to our Board	N/A
Zhao Weiwei (趙衛衛)	38	September 2017 [Note 2]	13 February 2020	Independent non-executive Director	The supervision and provision of independent judgement to our Board	N/A

Notes:

1. Each of Mr. Yu and Mr. Pui was re-designated as an executive Director on 1 November 2019.

2. Mr. He, Ms. Liu and Ms. Zhao were appointed as independent directors of Kidztech Intelligent in September 2017 and resigned in October 2019.

The following table sets forth certain information in respect of our members of senior management:

Name	Age	Date of joining our Group	Position	Brief description of roles and responsibilities	Relationship with other Directors or senior management
Wu Demiao (伍德秒)	33	March 2015	Financial controller	Responsible for the financial and accounting matters of our Group	N/A
Cao Xuelian (曹雪蓮)	33	April 2015	Joint company secretary and deputy general manager	Responsible for the company secretarial matters, the strategic planning, corporate finance compliance and legal functions of our Group	N/A

Executive Directors

Mr. Yu Huang (余煌), aged 39, is our chairman, executive Director and chief executive officer. He was appointed as our Director on 25 October 2019 and was re-designated as our executive Director on 1 November 2019. Mr. Yu is mainly responsible for formulating the overall development strategies, and financial and business plans of our Group; and managing (i) the technical R&D function which covers R&D and design; (ii) the production function which covers supply chain management, production material control, production and quality control; and (iii) marketing of our Group in the PRC.

Mr. Yu has over 12 years of experience in the toy manufacturing and sale industry. He founded our Group by establishing Shantou Jinjun in June 2009 and he was the executive director and the general manager of Shantou Jinjun from June 2009 to September 2017. He has been a director of Kidztech HK since July 2011. He was a director and a manager of Kidztech Intelligent from March 2015 to August 2015 and has become its chairman and general manager since August 2015.

Prior to joining our Group, Mr. Yu worked as the deputy general manager of Chenghai Changxing from July 2004 to March 2007 and the general manager of Shantou Chenghai Jinjun Toys Factory* (汕頭市澄海區錦駿玩具廠), which is primarily engaged in toy manufacturing, from March 2007 to June 2009.

Mr. Yu graduated from the Guangdong Justice Police Vocational College* (廣東司法警官職業學院) (formerly known as Guangdong Justice School* (廣東司法學校)) in the PRC, majoring in law in July 2003.

Mr. Yu was a director of the following companies, which were incorporated in Hong Kong or established in the PRC with limited liability and were dissolved or struck-off as they ceased to carry on business. As confirmed by Mr. Yu, the following companies were solvent at the time when they were dissolved and there was no wrongful act on his part leading to the dissolution and he is not aware of any actual or potential claim that has been or will be made against him as a result of such dissolution.

Company name	Place of incorporation/ establishment	Nature of business before dissolution	Nature of proceedings	Date of dissolution
Jinjun Industrial (Hong Kong) Limited *Note 1*	Hong Kong	Dormant	Strike-off	26 September 2014
Shantou Chenghai Jin Jun Toys Co. Limited *Note 2*	Hong Kong	Dormant	Deregistration	12 October 2018
Shantou Jinjun *Note 3*	PRC	Toy manufacturing and sale	Deregistration	17 January 2019

Notes:

1. The above-mentioned company was struck-off and dissolved pursuant to section 746 of the Companies Ordinance. Under section 746 of the Companies Ordinance, (i) after publishing a notice under section 744(3) or 745(2)(b), the registrar may, unless cause is shown to the contrary, strike the company's name off the Companies Register at the end of three months after the date of the notice; (ii) the registrar must publish in the Gazette a notice indicating that the company's name has been struck-off the Companies Register; and (iii) on publication of the notice under subsection (2), the company is dissolved.

2. The above-mentioned company was deregistered pursuant to section 751 of the Companies Ordinance. Under section 751 of the Companies Ordinance, an application for deregistration can only be made if (i) all members of the company agree to the deregistration; (ii) the company has not commenced operation or business, or has not been in operation or carried on business during the three months immediately before the application; (iii) the company has no outstanding liabilities; (iv) the company is not a party to any legal proceedings; (v) the company's assets do not consist of any immovable property situate in Hong Kong; and (vi) if the company is a holding company, none of its subsidiary's assets consist of any immovable property situate in Hong Kong.

3. Shantou Jinjun was deregistered as it had ceased its toy manufacturing and sale business after the business consolidation. Please refer to the sub-paragraph headed "Our operating companies since our establishment" in the section headed "History, Reorganisation, and corporate structure" of this prospectus for more details.

Mr. Yu has confirmed that the deregistration and striking-off of the above-mentioned companies have not resulted in any liability or obligation imposed against him.

Mr. Pui Lik Leung Kenny (貝烈亮), aged 49, was appointed as our Director on 25 October 2019 and re-designated as our executive Director on 1 November 2019. Mr. Pui is a deputy general manager of our Group mainly responsible for managing the sales function, which covers sales, accounts management, branding and marketing of our Group. He joined us in July 2011 as a director and the general manager of Kidztech HK. He was a director of Kidztech Intelligent from August 2015 to October 2019 and has been a deputy general manager of Kidztech Intelligent since May 2016.

Mr. Pui has over 20 years of experience in the toy manufacturing and sale industry. Mr. Pui worked as an engineer at Wakasa (H.K.) Ltd., which is principally engaged in toy trading, from November 1992 to December 1994, and Li & Fung (Trading) Limited, which is principally engaged in export trading, retailing and distribution, from January 1995 to May 1997. Mr. Pui was the general manager of Zintech Toys Manufacturing Limited, which is principally engaged in toy manufacturing, from March 1999 to September 2006. Subsequently, he joined Playmind Ltd., which is engaged in the design, manufacturing, and marketing of toys as an operation director, from October 2006 to August 2011.

Mr. Pui obtained a Diploma in Mechanical Engineering (Production) from Hong Kong Institute of Vocational Education (Sha Tin) (formerly known as Sha Tin Technical Institute) in Hong Kong in 1990.

Mr. Pui was a director of the following company which was incorporated in Hong Kong with limited liability and was dissolved by way of deregistration as it ceased to carry on business. As confirmed by Mr. Pui, the following company was solvent at the time when it was dissolved and there was no wrongful act on his part leading to the dissolution and he is not aware of any actual or potential claim that has been or will be made against him as a result of such dissolution.

Company name	Place of incorporation	Nature of business before dissolution	Nature of proceedings	Date of dissolution
Shantou Chenghai Jin Jun Toys Co. Limited *Note*	Hong Kong	Dormant	Deregistration	12 October 2018

Note: The above-mentioned company was deregistered pursuant to section 751 of the Companies Ordinance. Under section 751 of the Companies Ordinance, an application for deregistration can only be made if (i) all members of the company agree to the deregistration; (ii) the company has not commenced operation or business, or has not been in operation or carried on business during the three months immediately before the application; (iii) the company has no outstanding liabilities; (iv) the company is not a party to any legal proceedings; (v) the company's assets do not consist of any immovable property situate in Hong Kong; and (vi) if the company is a holding company, none of its subsidiary's assets consist of any immovable property situate in Hong Kong.

Mr. Pui has confirmed that the deregistration of such company has not resulted in any liability or obligation imposed against him.

Mr. Ni Yanlong (倪彥龍), aged 43, was appointed as our executive Director on 1 November 2019. Mr. Ni is a deputy general manager of our Group mainly responsible for managing the administrative, public relations and human resources functions of our Group. He joined Kidztech Intelligent as a deputy general manager in August 2017 and was one of its directors from September 2017 to October 2019.

Mr. Ni served as an assistant to the directors of the Pengzhong Village Committee of Waisha Town, Chenghai District, Shantou* (汕頭市澄海區外砂鎮蓬中村委會) from February 1999 to June 2000. He worked in the legal department of the Shantou Federation of Trade Unions* (汕頭市總工會) as a legal clerk and then a deputy director from June 2000 to February 2006. Subsequently, he joined the legal aid department of Shantou Justice Bureau as a deputy director from February 2006 to June 2015. He then became the Secretary General of the Shantou Law Society from June 2015 to July 2017.

Mr. Ni obtained a legal professional qualification certificate in the PRC in September 2002 and obtained a lawyer's certificate in June 2016. Mr. Ni obtained a Bachelor degree in International Economic Law from the Guangdong University of Finance and Economics (廣東財經大學) (formerly known as the Guangdong School of Business (廣東商學院)) in the PRC in June 1998.

Non-executive Director

Ms. Zheng Jingyun (鄭靜雲), aged 45, was appointed as our non-executive Director on 1 November 2019. Ms. Zheng is mainly responsible for advising on business strategy of our Group. She was a director of Kidztech Intelligent from April 2016 to October 2019. Ms. Zheng is the spouse of Mr. Cai.

Ms. Zheng worked at Shantou Chenghai District Weixin Bleaching & Dyeing Co., Ltd.* (汕頭市澄海區維新漂染有限公司), which is principally engaged in the sale of textile and fabric, as a clerk and an administrative manager from August 1995 to June 2006. She was the executive director and the manager of Shantou Tianyi Decoration Engineering Co., Ltd.* (汕頭市天一裝飾工程有限公司), which is principally engaged in indoor and decoration design, from July 2006 to December 2018. She was a supervisor of Shantou Beiduo Electric Co., Ltd*. (汕頭市貝多電器有限公司), which is principally engaged in the sale of electronic equipment, from June 2009 to February 2016. Since July 2015, she has been the executive director and the general manager of Shenzhen Qianhai Capital Management Co., Ltd.* (深圳前海領融資產管理有限公司), which is principally engaged in capital market services.

Ms. Zheng graduated from Chengcheng Vocational and Technical School* (澄城職業技術中學) in the PRC in June 1995.

Independent non-executive Directors

Mr. He Weidong (何衛東) (formerly known as He Jinghui (何晶輝)), aged 57, was appointed as our independent non-executive Director on 13 February 2020 and is mainly responsible for the supervision and provision of independent judgement to our Board. He was an independent director of Kidztech Intelligent from September 2017 to October 2019.

Mr. He has over 20 years of experience in corporate and investment management. He worked as a senior manager at the departments of business development and joint venture of China Network Communications Co., Ltd. (中國網絡通信有限公司) from December 1999 to December 2006 and since January 2007, he has been a deputy general manager of CNC Kuandai Network Co., Ltd.* (網通寬帶網絡有限責任公司), which is principally engaged in the provision of internet and related services. Since May 2014, he has been an executive director and the manager of Beijing Cloud Base Information Technology Co., Ltd.* (北京雲基地信息科技有限公司), which is primarily engaged in the provision of application services. Since April 2017, he has been an executive director of Nanjing Zhitian Yunwozi Information Technology Co., Ltd.* (南京智天雲沃茲信息科技有限公司), which is principally engaged in software and information technology services.

Mr. He obtained a Bachelor of Radio Engineering degree from the Beijing University of Posts and Telecommunications (北京郵電大學) in the PRC in July 1984, and an Executive Master of Business Administration diploma from the Tsinghua University (清華大學) in the PRC in April 2008. He obtained the "qualification as an independent director of listed companies" from the Shenzhen Stock Exchange in 2018.

Mr. He was a director of the following companies, which were established in the PRC with limited liability and were dissolved by way of deregistration as they ceased to carry on business or revocation of business licence. As confirmed by Mr. He, the following companies were solvent at the time when they were dissolved/revoked and there was no wrongful act on his part leading to their dissolution/revocation and he is not aware of any actual or potential claim that has been or will be made against him as a result of such dissolution/revocation.

Company name	Place of establishment	Nature of business before dissolution	Nature of proceedings	Date of dissolution
China NetCom Broadband Co., Ltd., Guangdong Branch* (網通寬帶網絡有限責任公司廣東分公司) *Note 1*	PRC	Retail of information technology products	Deregistration	10 November 2017
Ningbo Wangtong Information Portal Development Co., Ltd.* (寧波網通信息港發展有限公司) *Note 2*	PRC	Telecommunications, radio, television and satellite transmission services	Business licence revoked, not deregistered	6 December 2013

Notes:

1. The above-mentioned company was deregistered due to the expiration of business period.

2. The business licence of the above-mentioned company was revoked because it had failed to carry out annual inspections due to the reorganisation of such company.

Mr. He has confirmed that the deregistration or revocation of the business licence of such companies has not resulted in any liability or obligation imposed against him.

Ms. Liu Man (劉曼), aged 34, was appointed as our independent non-executive Director on 13 February 2020 and is mainly responsible for the supervision and provision of independent judgement to our Board. She was an independent director of Kidztech Intelligent from September 2017 to October 2019.

Ms. Liu worked as an assistant judge at Shantou City Intermediate People's Court Criminal No.1 Court from August 2010 to May 2017. Since May 2017, she has been an assistant to the general manager of Zhuhai Technology Venture Capital Co., Ltd.* (珠海科技創業投資有限公司), which is principally engaged in capital market services.

Ms. Liu obtained a legal professional qualification certificate in February 2009. She obtained the "qualification as an independent director of listed companies" from the Shenzhen Stock Exchange in 2018. She obtained a Bachelor of Laws degree and a Bachelor of Arts degree in English from the Huazhong University of Science & Technology (華中科技大學) in the PRC in June 2007 and July 2007, respectively. She further obtained a Master in Economic Law degree from the Wuhan University (武漢大學) in the PRC in June 2009.

Ms. Zhao Weiwei (趙衛衛), aged 38, was appointed as our independent non-executive Director on 13 February 2020 and is mainly responsible for the supervision and provision of independent judgement to our Board. She was an independent director of Kidztech Intelligent from September 2017 to October 2019.

Ms. Zhao worked as an auditor at ShineWing Certified Public Accountants Co. Ltd. (信永中和會計師事務所有限責任公司) from September 2007 to November 2009. She joined Beijing Horizon Taxation Consulting Co., Ltd. (北京華政稅務師事務所有限公司) as a project manager from February 2010 to June 2012. She worked at Shenzhou Digital Information Technology Co., Ltd* (神州數碼信息系統有限公司), which is principally engaged in software and information technology services, from July 2012 to August 2015. She was a manager in the department of tax services of Shenzhou Yitai Information Technology Co., Ltd.* (神州易泰信息技術有限公司), which is principally engaged in business management consulting, from August 2015 to November 2017. Since December 2017, she has been a senior manager at Zhongcheng Yinghe Tax Consultant (Beijing) Co., Ltd.* (中誠盈禾稅務師事務所(北京)有限公司), which is principally engaged in tax advisory services.

Ms. Zhao has been a certified public accountant and certified tax consultant of the PRC since July 2009 and May 2016, respectively. She obtained the "qualification as an independent director of listed companies" from the Shenzhen Stock Exchange in 2018.

She obtained a Bachelor of Accounting degree from the Minzu University of China (中央民族大學) in the PRC in July 2004, and a Master degree in business administration from the same university in July 2007.

Save as disclosed above, none of our Directors are related to other Director or senior management members of our Company or have been a director of any listed company in Hong Kong or overseas in the last three years.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable inquiries, as at the Latest Practicable Date, there was no other information in relation to our Directors that was required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules or any other material matter relating to our Directors that needs to be brought to the attention of our Shareholders or investors.

As at the Latest Practicable Date, save for the interests of each of the Directors in the Shares which are disclosed in the sub-paragraph headed "1(a) Interests of Directors and chief executive in Shares, underlying Shares and debentures of our Company and its associated corporations" under the paragraph headed "C. Further information about Substantial Shareholders, Directors and experts" in Appendix IV to this prospectus, each of our Directors did not have any interest in the Shares within the meaning of Part XV of the SFO.

SENIOR MANAGEMENT

Mr. Wu Demiao (伍德秒), aged 33, is the financial controller of our Group and is mainly responsible for the financial and accounting matters of our Group. He joined us as a deputy financial controller of Kidztech Intelligent in March 2015 and was subsequently promoted to its financial controller in September 2015.

Mr. Wu has over 10 years of experience in accounting and finance. He was a senior auditor of Pan-China Certified Public Accountants LLP from March 2011 to October 2012. He was a project manager at ShineWing Certified Public Accountants LLP (Hangzhou branch) (信永中和會計師事務所(特殊普通合伙)杭州分所) from January 2013 to April 2015.

He has been a certified public accountant in the PRC since December 2013.

Mr. Wu obtained a Bachelor of Accounting degree from Zhejiang Institute of Finance and Economics (浙江財經學院) (currently known as the Zhejiang University of Finance and Economics) in the PRC in June 2009.

Ms. Cao Xuelian (曹雪蓮), aged 33, is a deputy general manager of our Group and one of the joint company secretaries of our Company. She is mainly responsible for the company secretarial matters and the strategic planning, corporate finance compliance and legal functions of our Group. She has joined us as the secretary to the board of directors of Kidztech Intelligent since April 2015 and since August 2017 she has also been its deputy general manager.

Ms. Cao has over seven years of experience in legal practice. Ms. Cao worked as a paralegal at Hubei Today Law Firm (湖北今天律師事務所) from October 2012 to September 2014. She was a manager of the legal department of Hubei Sky-Blue International Aviation School Co., Ltd.* (湖北蔚藍國際航空學校股份有限公司), which is principally engaged in the provision of private or commercial pilot licence training, from September 2014 to March 2015.

Ms. Cao obtained a legal professional qualification certificate in March 2013 and has been a qualified PRC lawyer since August 2015. She obtained the "qualification as a secretary to the board" and "qualification as an independent director of listed companies" from the Shenzhen Stock Exchange in 2017 and 2018, respectively.

She obtained a Bachelor of History degree from the Hubei University (湖北大學) and a Master of Laws degree from the Southwest University of Political Science & Law (西南政法大學) in the PRC in June 2009 and June 2013, respectively.

JOINT COMPANY SECRETARIES

Ms. Cao Xuelian (曹雪蓮) was appointed as one of our joint company secretaries with effect from 1 November 2019. Please refer to the paragraph headed "Senior management" above for her biography. Since Ms. Cao does not possess the qualification required in Rule 3.28 of the Listing Rules, we have applied for and have been granted by the Stock Exchange a waiver from strict compliance with the relevant provisions. Please refer to the sub-paragraph headed "Joint company secretaries" in the section headed "Waivers from strict compliance with the Listing Rules and exemption from strict compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance" of this prospectus for more details.

Ms. Koo Ching Fan (顧菁芬), aged 50, was appointed as one of our joint company secretaries with effect from 1 November 2019. Ms. Koo is a director of Fair Wind Secretarial Services Limited and has over 20 years of experience in the company secretarial field. She is currently a company secretary of seven companies listed on the Stock Exchange, including: Capinfo Company Limited (Stock Code: 1075), CMIC Ocean En-Tech Holding Co., Ltd. (Stock Code: 206), International Housewares Retail Company Limited (Stock Code: 1373), Shenzhen Investment Holdings Bay Area Development Company Limited (Stock Code: 737), Shun Ho Holdings Limited (Stock Code: 253), Shun Ho Property Investments Limited (Stock Code: 219) and Magnificent Hotel Investments Limited (Stock Code: 201).

Ms. Koo has extensive knowledge and experience in dealing with corporate governance and compliance issues of listed companies. Ms. Koo is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in England. She is also a fellow member of The Association of Chartered Certified Accountants.

COMPLIANCE ADVISER

In accordance with Rule 3A.19 of the Listing Rules, our Company has appointed CMBC International Capital Limited as our compliance adviser, who will have access to all relevant records and information relating to our Company that it may reasonably require to properly perform its duties. Pursuant to Rule 3A.23 of the Listing Rules, our Company must consult with and, if necessary, seek advice from the compliance adviser on a timely basis in the following circumstances:

(i) before the publication of any regulatory announcement, circular or financial report;

(ii) where a transaction, which might be a notifiable or connected transaction, is contemplated by our Company, including share issues and share repurchases;

(iii) where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Company deviate from any forecast, estimate (if any) or other information in this prospectus; and

(iv) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares, the possible development of a false market in our Shares, or any other matters.

The term of appointment shall commence on the Listing Date and end on the date on which our Company complies with the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date, that is, the distribution of our Company's annual report of its financial results for the year ending 31 December 2021, or until the agreement is terminated, whichever is the earlier.

BOARD COMMITTEES

Our Board has established the audit committee, the remuneration committee and the nomination committee.

Audit Committee

Our Company established the audit committee pursuant to a resolution of our Directors passed on 13 February 2020 in compliance with the Listing Rules. Written terms of reference of the audit committee in compliance with paragraph C.3.3 of the CG Code has been adopted. Among other things, the primary duties of the audit committee are to make recommendations to our Board on appointment or reappointment and removal of external auditor; review financial statements of our Company and judgements in respect of financial reporting; and oversee the effectiveness of the internal control procedures of our Group. The audit committee consists of three independent non-executive Directors, namely Ms. Zhao Weiwei, Ms. Liu Man and Mr. He Weidong. Ms. Zhao Weiwei is the chairman of the audit committee.

Remuneration Committee

Our Company established the remuneration committee pursuant to a resolution of our Directors passed on 13 February 2020 in compliance with the Listing Rules. Written terms of reference of the remuneration committee in compliance with paragraph B.1.2 of the CG Code has been adopted. The primary duties of the remuneration committee are to make recommendation to our Board on the overall remuneration policy and structure relating to all Directors, senior management and general staff of our Group and ensure that none of our Directors or any of their associates determine their own remuneration. The remuneration committee consists of three members, namely Ms. Liu Man, Mr. Pui and Mr. He Weidong. Ms. Liu Man is the chairman of the remuneration committee.

Nomination Committee

Our Company established the nomination committee pursuant to a resolution of our Directors passed on 13 February 2020 with written terms of reference in compliance with paragraph A.5.2 of the CG Code. The primary duties of the nomination committee are to review the structure, size, diversity and composition of our Board annually; identify individuals suitably qualified to become Board members; assess the independence of our independent non-executive Directors; and make recommendations to our Board on relevant matters relating to appointment or reappointment of our Directors. The nomination committee consists of five members, namely Mr. He Weidong, Mr. Yu, Mr. Pui, Ms. Liu Man and Ms. Zhao Weiwei. Mr. He Weidong is the chairman of the nomination committee.

CORPORATE GOVERNANCE

Pursuant to paragraph A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Yu is currently the chairman of our Board and the chief executive officer of our Group. Mr. Yu has been responsible for the overall management of our Group since the establishment of our Group. Our Board believes that the current structure enables us to make and implement business decision swiftly and effectively which promotes our Group's development in line with other strategies and business direction. Our Board considers that the balance of power and authority, accountability and independent decision-making under our present arrangement will not be impaired because of the diverse background and experience of our executive Directors, non-executive Director and independent non-executive Directors. Further, our audit committee, which consists of independent non-executive Directors, has free and direct access to our Company's external auditors and independent professional advisers when it considers necessary. Therefore our Directors consider that the deviation from paragraph A.2.1 of the CG Code is appropriate in such circumstance. In order to maintain good corporate governance and to fully comply with paragraph A.2.1 of the CG Code, our Board will regularly review the need to appoint different individuals to perform the roles of chairman of our Board and chief executive separately.

Our Company has adopted a board diversity policy (the "**Diversity Policy**") which sets out the approach to achieve and maintain diversity on our Board in order to enhance the effectiveness of our Board. We have taken into account our business development and strategy as well as the operational need when formulating the Diversity Policy. Under the Diversity Policy, our Company recognises and embraces the benefits of having a diverse Board, and sees diversity at Board level as an essential element in maintaining a competitive advantage. Our Company seeks to achieve Board diversity through various factors, including but not limited to the industry experience, professional knowledge, talents, skills, education background, age, gender and length of services with our Group.

We believe our Board has a balanced matrix of knowledge, expertise, experiences and skills covering areas relating to toy manufacturing and sale, law, financial management, accounting, internal control and corporate governance. Furthermore, our Board has a wide range of age, ranging from 33 years old to 56 years old. We also achieve gender diversity by having four male Directors and three female Directors. On such premise, our Board is well balanced and diversified in alignment with the business development and strategy of our Group. Our nomination committee is responsible for ensuring the diversity of our Board members and compliance with relevant codes governing board diversity under the CG Code. Our nomination committee will review the Diversity Policy from time to time to ensure its continued effectiveness. We will also disclose in the corporate governance report about the implementation of the Diversity Policy on an annual basis.

DIRECTORS' REMUNERATION

Our Group's principal policies concerning remuneration of Directors are determined based on the relevant Director's duties, responsibilities, experiences, skills, time commitment and performance of our Group and are made with reference to those paid by comparable companies. Our executive Directors may receive discretionary bonuses which shall be determined by our Board with regard to the performance of the relevant executive Director and the operating results of our Group as a whole in respect of the financial year. Our independent non-executive Directors receive compensation in the form of a director fee.

The aggregate amount of fees, salaries, contributions to pension schemes, housing and other allowances, benefits in kind and discretionary bonuses paid to our Directors for the three years ended 31 December 2018 and the eight months ended 31 August 2019 were approximately RMB1.3 million, RMB1.5 million, RMB1.4 million, and RMB0.9 million, respectively.

Our Group's five highest paid individuals included two, two, one and one Director(s) for the three years ended 31 December 2018 and the eight months ended 31 August 2019, respectively. Excluding these two, two, one and one Director(s), the aggregate amount of fees, salaries, contributions to pension schemes, housing and other allowances, benefits in kind and discretionary bonuses paid to the remaining highest paid individual(s) for the three years ended 31 December 2018 and the eight months ended 31 August 2019 were approximately RMB1.1 million, RMB1.2 million, RMB1.4 million and RMB0.9 million, respectively.

During the Track Record Period, no compensation was paid to, or received by, our Directors, past directors or our Group's five highest paid individuals for the loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. During the Track Record Period, no emolument was paid to, or received by, our Directors or our Group's five highest paid individuals as an inducement to join or upon joining our Group. During the Track Record Period, none of our Directors had waived or agreed to waive any emolument.

Except as disclosed above, no other payments of remuneration had been made, or are payable, in respect of the Track Record Period, by our Group to or on behalf of any of our Directors.

For additional information on our Directors' remunerations during the Track Record Period as well as information on the highest paid individuals, please refer to Note 7 to the Accountant's Report set out in Appendix I to this prospectus.

So far as our Directors are aware, the following persons will, immediately prior to and following completion of the Global Offering and the Capitalisation Issue (taking no account of 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 of the Adjustment Options), have interests or short positions in Shares or underlying Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the issued voting shares of our Company or any other member of our Group:

Name of Shareholder	Nature of interest	Shares held as at the Latest Practicable Date		Shares held immediately prior to completion of the Global Offering and the Capitalisation Issue		Shares held immediately following completion of the Global Offering and the Capitalisation Issue	
			Approximate percentage		*Approximate percentage*		*Approximate percentage*
Mr. Yu [Note 1]	Interest in a controlled corporation	37,400,000	47.95%	37,400,000	47.95%	206,946,667	39.80%
Ms. Chen [Note 2]	Interest of spouse	37,400,000	47.95%	37,400,000	47.95%	206,946,667	39.80%
Top Synergy	Beneficial owner	37,400,000	47.95%	37,400,000	47.95%	206,946,667	39.80%
Ms. Ng [Note 3]	Interest in a controlled corporation	10,000,000	12.82%	10,000,000	12.82%	55,333,333	10.64%
Mr. Wu Shupeng [Note 4]	Interest of spouse	10,000,000	12.82%	10,000,000	12.82%	55,333,333	10.64%
Motivational Mathematics	Beneficial owner	10,000,000	12.82%	10,000,000	12.82%	55,333,333	10.64%
Mr. Cai [Note 5]	Interest in a controlled corporation	6,500,000	8.33%	6,500,000	8.33%	35,966,667	6.92%
Ms. Zheng Jingyun [Note 6]	Interest of spouse	6,500,000	8.33%	6,500,000	8.33%	35,966,667	6.92%
Charming Flair	Beneficial owner	6,500,000	8.33%	6,500,000	8.33%	35,966,667	6.92%

Notes:

1. Top Synergy is owned as to 94.79% by Mr. Yu and 5.21% as to Ms. Chen, respectively. Therefore, Mr. Yu is deemed to be interested in all the Shares held by Top Synergy for the purpose of the SFO.

2. Ms. Chen is the spouse of Mr. Yu. Therefore, Ms. Chen is deemed to be interested in all the Shares that Mr. Yu is interested in for the purpose of the SFO.

3. Motivational Mathematics is owned as to 100% by Ms. Ng. Therefore, Ms. Ng is deemed to be interested in all the Shares held by Motivational Mathematics for the purpose of the SFO.

4. Mr. Wu Shupeng is the spouse of Ms. Ng. Therefore, Mr. Wu Shupeng is deemed to be interested in all the Shares that Ms. Ng is interested in for the purpose of the SFO.

5. Charming Flair is owned as to 100% by Mr. Cai. Therefore, Mr. Cai is deemed to be interested in all the Shares held by Charming Flair for the purpose of the SFO.

6. Ms. Zheng Jingyun, our non-executive Director, is the spouse of Mr. Cai. Therefore, Ms. Zheng Jingyun is deemed to be interested in all the Shares that Mr. Cai is interested in for the purpose of the SFO.

ASSUMPTIONS

The share capital of our Company immediately following completion of the Global Offering and the Capitalisation Issue is set out in the table below. The table is prepared on the basis of the Global Offering becoming unconditional and the issue of Offer Shares pursuant thereto is made as described herein. It takes into no account of any Shares which may be issued upon the exercise of options granted under the Share Option Scheme or any of the Adjustment Options or any Shares which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors as referred to below or otherwise.

Authorised share capital:		*HK$*
5,000,000,000	Shares of HK$0.001 each	5,000,000
Issued and to be issued, fully paid or credited as fully paid upon completion of the Global Offering		
78,000,000	Shares in issue as at the date of this prospectus	78,000
353,600,000	Shares to be issued pursuant to the Capitalisation Issue	353,600
88,400,000	Offer Shares to be issued pursuant to the Global Offering (assuming any of the Adjustment Options is not exercised)	88,400
520,000,000	**Shares**	520,000

If any of the Adjustment Options is fully exercised, we will allot and issue an additional 13,260,000 Shares and we will have in issue 533,260,000 Shares and our issued share capital will be HK$533,260.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08 of the Listing Rules, at least 25% of the total number of issued Shares must at all times be held by the public.

RANKING

The Offer Shares, together with the Shares which may be issued upon the exercise of options granted under the Share Option Scheme and the Adjustment Options, will rank *pari passu* in all respects with all the Shares now in issue or to be allotted and issued as mentioned in this prospectus and will qualify for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the Listing Date.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Pursuant to the Companies Law and the terms of our Memorandum and Articles, our Company may from time to time by ordinary resolution of our Shareholders (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may, reduce its share capital by special resolution of our Shareholders. Please refer to the sub-paragraph headed "(a)(iii) Alteration of capital" under the paragraph headed "2. Articles of Association" in Appendix III to this prospectus for more details.

Pursuant to the terms of our Memorandum and Articles, if at any time the capital is divided into different classes of shares, all or any of the special rights (unless otherwise provided for by the terms of issue of that class) attached to any class may, subject to the provisions of the Companies Law, be varied 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 meeting of the holders of the shares of that class. Please refer to the sub-paragraph headed "(a)(ii) Variation of rights of existing shares or classes of shares" under the paragraph headed "2. Articles of Association" in Appendix III to this prospectus for more details.

GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with the Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such securities convertible into 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 requirement that the number of 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 the Shareholders) shall not exceed:

(a) 20% of the total number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue (excluding any Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme and any of the Adjustment Options); and

(b) the aggregate number of Shares repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares referred to in the paragraph headed "General mandate to repurchase shares" in this section of this prospectus.

This mandate does not cover Shares to be allotted, issued or dealt with under a rights issue, scrip dividend scheme or similar arrangement in accordance with the Articles, or pursuant to the exercise of option granted under the Share Option Scheme. This general mandate to issue Shares will remain in effect until the earliest of:

(a) the conclusion of the next annual general meeting of our Company;

(b) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or

(c) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting.

Please refer to the sub-paragraph headed "3. Written resolutions of the existing Shareholders" under the paragraph headed "A. Further information about our Company" in Appendix IV to this prospectus for further details of this general mandate.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares of not more than 10% of the total number of Shares in issue following completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of options granted under the Share Option Scheme and any of the Adjustment Options).

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange(s) on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, and such repurchases are made in accordance with all applicable laws and/or requirements of the Listing Rules. Please refer to the sub-paragraph headed "6. Repurchase by our Company of our own securities" under the paragraph headed "A. Further information about our Company" in Appendix IV to this prospectus for a summary of the relevant Listing Rules.

The general mandates to issue and repurchase Shares will remain in effect until the earliest of:

(a) the conclusion of the next annual general meeting of our Company;

(b) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Law or any other applicable law of the Cayman Islands to be held; or

(c) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting.

SHARE OPTION SCHEME

Our Group has conditionally adopted the Share Option Scheme. Please refer to the sub-paragraph headed "1. Share Option Scheme" under the paragraph headed "D. Other information" in Appendix IV to this prospectus for a summary of the details of the principal terms of the Share Option Scheme.

You should read this section in conjunction with our combined financial information, including the notes thereto, as set out in Appendix I to this prospectus. The combined financial information has been prepared in accordance with HKFRS.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include those discussed in the section headed "Risk factors" in this prospectus.

The following discussion and analysis also contain certain amounts and percentage figures that have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them and all monetary amounts shown are approximate amounts only.

OVERVIEW

We have a vision of becoming a smart interactive entertainment product provider. We principally design, develop, manufacture and sell high quality smart toy vehicles, smart interactive toys and traditional toys. We also commenced selling smart hardware, such as Bluetooth speakers, during the Track Record Period. We have strong capability in product innovation and design, and well-established collaboration with reputable automobile, entertainment character and toy brand licensor. We were accredited as a High and New Technology Enterprise on 9 December 2016, which is effective for three years commencing on 1 January 2016.

For each of the three years ended 31 December 2018 and the eight months ended 31 August 2019, our revenue was approximately RMB214.0 million, RMB259.2 million, RMB278.7 million and RMB210.2 million, respectively, and profit for the year/period was approximately RMB33.4 million, RMB36.1 million, RMB32.8 million and RMB27.8 million, respectively.

BASIS OF PRESENTATION

Immediately prior to and after our Reorganisation, our businesses are mainly conducted through Kidztech Intelligent and its subsidiaries. Pursuant to our Reorganisation, the interest in Kidztech Intelligent and its subsidiaries were transferred to and held by our Company. Our Company has not been involved in any other business prior to our Reorganisation. Our Reorganisation is merely a recapitalisation of our businesses with no change in management and our ultimate owners of our businesses remain the same. Further details of our Reorganisation are set out in the paragraph headed "Reorganisation" under the section headed "History, Reorganisation and corporate structure" in this prospectus.

Accordingly, the combined financial information of our Group has been presented using the carrying values of our businesses for all periods presented, as if our current Group structure had been in existence throughout the Track Record Period.

The financial information relating to our Group has been prepared in accordance with HKFRS. The historical financial information of our Group has been prepared under the historical cost convention. For further details, please refer to Notes 1.3 and 2.1 to the Accountant's Report in Appendix I to this prospectus.

KEY FACTORS AFFECTING OUR PERFORMANCE

Our business, results of operation and financial condition are affected by a number of factors, many of which operate beyond our control. Please refer to the section headed "Risk factors" in this prospectus for more details. Some of these factors are described below.

Our design, research and development of new products

Our success depends upon our ability to address the changes in consumer trends by developing and introducing new and innovative products on a timely manner and in accordance with changing demands. We devote substantial resources to strengthen our product design, research and development capabilities. We endeavour to improve customers' satisfaction by adding additional features and functions to our products. Historically, our strong capability in product innovation and design includes designing and developing a toy racer that is able to run upside down along the track. We cannot assure you that we will be able to continue to develop products or complete any product development successfully or that any new products developed will receive market acceptance. If we are unable to respond effectively to any change in consumer preferences by commercialising new products that command a sustainable gross profit margin, our business, financial condition, results of operation and prospects could be adversely affected.

Consumer demand and macroeconomic conditions

Based on destination of delivery, a substantial amount of our toy products is sold to our customers in overseas markets, mainly Europe, North America and Asia (excluding the PRC). As such, our operating results and profitability are more correlated with the demand and macroeconomic conditions in Europe, North America and Asia (excluding the PRC). There are many factors affecting the level of consumer spending beyond our control, including but not limited to, disposable income, birth rate, per child annual expenditure on toy products, etc.. Any decline in general economic conditions in Europe, North America and Asia (excluding the PRC) may result in decrease in orders from our customers in such markets, potential delay and/or default in payment. We cannot guarantee that we can continue to expand our customer base in Europe, North America and Asia (excluding the PRC), and generate higher revenue from such respective market. There is a possibility that we cannot maintain the existing level of purchase orders from our customers in Europe, North America and Asia (excluding the PRC). Any or a combination of such factors could materially and adversely affect our business, financial conditions, results of operation, prospects and profitability.

Popularity and market acceptance of renowned automobile manufacturers, entertainment characters and toy brand with our products and the promotional campaigns of the respective licensors

A majority of our Group's products is co-branded with popular licensed rights of brands of renowned automobile manufacturers, entertainment characters and toy brand, and the success of such products is to a certain extent dependent on the market acceptance of the respective automobile manufacturers, entertainment characters and toy brand which is in turn affected by the market acceptance and popularity of such automobile, such characters featured in animated television series or motion pictures, the marketability of the merchandising items with licensed entertainment characters, and marketing and promotional activities initiated by the licensors. Our Group's business is therefore subject to the business cycle of automobile industry, the global entertainment industry, and the promotional campaigns undertaken by licensed automobile manufacturers, toy brand owner and the entertainment character licensors. In particular, the lasting effect of the animated television series or motion pictures on the sale of the products of our Group depends on the popularity of the animated television series or motion pictures as well as the compatibility of the featured characters in animated television series or motion pictures to our product categories. Our toy products produced under the brands of renowned automobile manufacturers are focused on trademarks and trade dress associated with certain of their car models, while our toy products produced under the licensed toy brand as well as entertainment characters are focused on the respective brand and entertainment characters of licensors. During the Track Record Period, our revenue generated from the sale of our co-branded toys accounted for approximately 53.3%, 44.0%, 40.1% and 42.5% of our total revenue, respectively. As such, any unfavourable changes in the popularity and market acceptance of automobile brands and models, entertainment characters and toy brands used in our toy products may adversely affect our business, prospects and results of operation.

Our financial performance may be affected by fluctuations in raw material prices as we may not always be able to pass on the increase in raw material costs to our customers

Our business and profitability may be affected by fluctuations in the prices of raw materials. As our business continues to grow, we experienced an increasing demand for raw materials, such as different types of plastic materials during the Track Record Period. Our total costs of raw materials and goods used accounted for approximately 63.5%, 64.2%, 66.0% and 65.7% of our total cost of sales for the three years ended 31 December 2018 and the eight months ended 31 August 2019, respectively.

Although we monitor the price of raw materials and adjust our price quotations accordingly from time to time, as our quotations do not specify any provision for us to renegotiate if there is a significant fluctuation in raw materials price, if market prices of our products fail to timely respond to changes of raw material prices, we may not be able to pass on the increase in the prices of raw materials to our customers and sell our products at prices acceptable to our customers. In addition, should there be an increase in the raw material prices and we respond by adjusting our price quotation, our customers may switch their suppliers and no longer engage us as supplier for them. There is no guarantee that we will be able to pass through all or any of the increased raw materials costs to our customers in a timely manner or at all. An increase in raw material prices that we are unable to pass through to our customers will increase our cost of sales and materially and adversely affect our profit margin. In any such event, our business, financial condition, results of operation and growth prospects may be materially and adversely affected.

The following table sets out a sensitivity analysis of hypothetical fluctuations in our cost of raw materials and goods used, with other assumptions held constant, and their effect on our profit before tax for the year/period indicated. Fluctuations in our cost of raw materials and goods used are assumed to be 5%, 10% and 15%.

Hypothetical fluctuations in cost of raw materials and goods used	**+/– 5%**	**+/– 10%**	**+/– 15%**
	RMB'000	*RMB'000*	*RMB'000*
Decrease/increase in profit before tax			
Year ended 31 December 2016	–/+ 4,105	–/+ 8,210	–/+ 12,314
Year ended 31 December 2017	–/+ 5,351	–/+ 10,701	–/+ 16,052
Year ended 31 December 2018	–/+ 6,047	–/+ 12,094	–/+ 18,140
Eight months ended 31 August 2019	–/+ 4,325	–/+ 8,650	–/+ 12,975

The above analysis on historical financials is based on assumptions and is for illustrative purpose only and should not be viewed as actual result.

Product mix

Our product mix broadly consists of high quality smart toy vehicles, smart interactive toys and traditional toys. We also commenced selling smart hardware during the Track Record Period. Our products are (i) branded with our "kidztech" brand; (ii) co-branded with (aa) renowned automobile manufacturers, (bb) popular entertainment characters featured in animated television series or motion pictures, or (cc) toy brand owner; and (iii) branded under our overseas customers' brands, which mainly represent the products we manufacture on ODM and OEM bases and the products sold to our customers branded under their respective brands.

During the Track Record Period, our high quality smart toy vehicles made the largest contribution to our overall revenue. During the Track Record Period, our revenue generated from the sale of our smart toy vehicles accounted for approximately 80.4%, 84.6%, 78.3% and 64.5% of our total revenue, respectively. Our product mix changes over time and the magnitude of such changes may impact our revenue and profitability. In the future, we will continue to evaluate and adjust our product mix from time to time and focus on products with higher profit margins, higher market demand and potential to maintain and increase our profitability.

Seasonality

Our results of operation are subject to seasonal fluctuations. During the year ended 31 December 2016, 2017 and 2018, our shipment peak season took place between June and December of each year in which we achieved significant higher sales than other months to meet the Christmas and New Year holiday seasons. For example, for the year ended 31 December 2018, our sales generated between June and December accounted for more than 75.0% of our total revenue of the year.

Any reduction in the sale of toy products during the peak season may have an adverse impact on our sales and performance. Comparisons of sales and operating results between different periods within a single financial year may not be meaningful and should not be relied upon as indicators of our performance. For example, our operating results of the second half of a financial year usually outperform the first half of a financial year due to the mismatch in seasonal pattern in our sales and certain of our operating expenses, trade receivable for the second half of a financial year is higher than that of the first half of a financial year, and the same pattern also applies to our trade payables. Due to this seasonal consumption pattern (most of which are beyond our control), our operating results and financial conditions may fluctuate from period to period.

The Sino-US trade war may affect our business, financial conditions and results of operation

Recently, the fear of the Sino-US trade war has already put a damper on global business sentiment. The recent tit-for-tat exchange of tariffs between the PRC and the US has roiled the global economy and global financial market. For the three years ended 31 December 2018 and the eight months ended 31 August 2019, our sale of products exported to the U.S. accounted for approximately RMB49.3 million, RMB47.6 million, RMB43.8 million and RMB45.2 million, respectively, representing approximately 23.0%, 18.4%, 15.7% and 21.5% of our total revenue, respectively, for the corresponding period. Other than our direct export sale to the U.S., through communications with the PRC Export-Oriented Wholesalers and information available to our Directors, our Directors are aware that some of our products sold to the PRC Export-Oriented Wholesalers would be onward exported to the U.S. during the Track Record Period.

On 17 May 2019, the Office of the United States Trade Representative announced the Fourth List including toys, covering an annual trade value of approximately US$300 billion. On 1 August 2019, it was announced that the Fourth List will become effective on 1 September 2019; it was announced on 13 August 2019 that the effective date of imposing additional ad valorem duty on certain items included in the Fourth List, including certain toys, will be delayed until 15 December 2019 or removed. On 13 December 2019, the US and the PRC government officials announced that they have entered into a preliminary trade agreement, whereby the proposed US tariffs to be imposed on certain Chinese imported goods in the Fourth List, including toys, had been deferred. On 18 December 2019, at the direction of the president of the US, the US government determined to suspend indefinitely the imposition of the additional 15% ad valorem duty on certain Chinese imported goods in the Fourth List, including toys. Subsequently, on 15 January 2020, the US and the PRC government signed the phase one agreement aimed at easing the Sino-US trade war. Pursuant to such agreement, among others, US tariffs on approximately US$370 billion Chinese goods remain in place while avoiding the threat of further escalation. In addition, the US president said that the tariffs that remain would be removed pending progress on the second phase of negotiations. Accordingly, the imposition of proposed US tariff on toys exported from the PRC to the US shall continue to be suspended indefinitely, subject to further negotiation between the US and the PRC governments. On 6 February 2020, the Chinese officials announced that tariffs that the Chinese government imposed on some US goods since 1 September 2019 would be cut from 10% to 5%, and on others from 5% to 2.5%. Such reduction in tariffs has become effective since 14 February 2020, as Chinese officials' first response to the phase one agreement.

Even though the imposition of proposed US tariff on toys exported from the PRC to the US shall continue to be suspended indefinitely, subject to further negotiation between the US and the PRC governments, the phase one agreement entered into between the US and the PRC governments on 15 January 2020 requires the PRC government to commit in several matters, including but not limited to, the PRC purchasing US goods and services by US$200 billion over the next two years. The provisions of the deal between the US and the PRC governments are subject to an enforcement mechanism that requires several rounds of consultations. If two sides do not reach an agreement, the complaining party could take remedial actions in a proportionate way, e.g. re-imposing tariffs. In addition, the US president said that the tariffs that remain would be removed pending progress on the second phase of negotiations. Therefore, should the PRC government breach its commitment under the phase one agreement or the US and the PRC governments do not reach an agreement regarding an enforcement mechanism in the future, the US government may re-impose tariffs on PRC goods, including toys. As such, such increase in ad valorem duty which would significantly damage global economy may lead to a decrease in the demand for our products bound for the US and our business, results of operation and financial condition may be adversely affected.

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

Our business operations require manual labour work and we had 993 employees as at 31 August 2019, of which, over 700 of them were engaged in production. We believe our future performance depends on the ability to sustain cost effectiveness. Our staff costs accounted for approximately 6.7%, 12.8%, 15.7% and 16.6% of our total costs of sales for the three years ended 31 December 2018 and the eight months ended 31 August 2019, respectively. There is no guarantee that our supply of labour and labour costs will continue to be stable. If we fail to retain our existing labour and/or recruit sufficient labour in a timely manner, we may not be able to accommodate sudden increases in demand for our products or our expansion plans. If we are not able to manufacture and deliver our products on schedule or if we are unable to implement our expansion plans, our business, financial condition, results of operation and prospects would be materially and adversely affected. Furthermore, if there is a significant increase in labour costs, the costs of our business operation would increase and our profitability would be adversely affected.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain critical accounting policies and estimates that are significant to the preparation of our combined financial statements and important for an understanding of our financial position and results of operation.

Our significant accounting policies are set out in Note 2 to the Accountant's Report as set out in Appendix I to this prospectus, which are important for understanding our financial condition and results of operation.

Certain critical accounting estimates and judgements, which are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances, are discussed in Note 4 to the Accountant's Report as set out in Appendix I to this prospectus.

Adoption of HKFRS 9, HKFRS 15 and HKFRS 16

Our historical financial information has been prepared based on the underlying financial statements, in which HKFRS 9 "Financial instruments" ("**HKFRS 9**"), HKFRS 15 "Revenue from contracts with customers" ("**HKFRS 15**") and HKFRS16 "Leases" ("**HKFRS 16**") have been adopted and applied consistently since the beginning of, and throughout, the Track Record Period.

Given that the Track Record Period spans from 1 January 2016 to 31 August 2019, by which time HKFRS 9, HKFRS 15 and HKFRS 16 would be mandatorily applied, we have adopted HKFRS 9, HKFRS 15 and HKFRS 16 in lieu of HKAS 39 "Financial Instruments: Recognition and Measurement" ("**HKAS 39**"), HKAS 18 "Revenue" ("**HKAS 18**") and HKAS 17 "Leases" ("**HKAS 17**") in the preparation of our financial statements, such that our historical financial information prepared under HKFRS 9, HKFRS 15 and HKFRS 16 is comparable on a period-to-period basis.

We have carried out internal assessments based on the principles set out in HKAS 39, HKAS 18 and HKAS 17, and set out below certain estimated key impacts on our financial position and performance if HKAS 39, HKAS 18 and HKAS 17 were adopted instead:

Adoption of new impairment model — HKFRS 9

HKFRS 9 requires the recognition of impairment provisions of financial assets measured at amortised cost based on expected credit losses model while it is based on as-incurred model under HKAS 39. We have assessed that the adoption of these two different models would not result in significant difference on bad debt provision and the adoption of HKFRS 9 did not have any significant impact on our Group's financial position and performance as compared with HKAS 39.

Revenue recognition — HKFRS 15

Under HKAS 18, revenue from the sale of goods shall be recognised when the entity has transferred to the buyer the significant risks and rewards of ownership of the goods. Under HKFRS 15, revenue from sale of goods is recognised at the point of time when control of the goods has been transferred to the customers. Under both HKAS 18 and HKFRS 15, these sales transactions are recognised as revenue when the goods are delivered to the customers. We estimate the sales return, which is netted off against revenue recognised during the period, based on accumulated experience and the terms in the sales contracts with the customers.

Presentation of contract liabilities — HKFRS 15

The adoption of HKFRS 15 resulted in reclassification of advanced payment from customers for goods that have not yet been transferred to the customers. Contract liabilities amounting to approximately RMB0.3 million, RMB1.0 million, RMB0.6 million and RMB1.5 million as of 31 December 2016, 2017, 2018 and 31 August 2019 respectively, would have been presented as advances from customers if HKAS 18 has been applied throughout the Track Record Period.

Our Directors considered the adoption of HKFRS 15 did not have significant impact on our financial position and performance during the Track Record Period, except for the reclassification in relation to advances from customers to contract liabilities.

Leases — HKFRS 16

We lease various offices, land, and factory buildings located in the PRC and in Hong Kong. Rental contracts for offices and factory buildings are typically made for fixed periods of three to five years with fixed rental expenses.

If applying HKAS 17, rental expenses would be recognised in the combined statements of comprehensive income as cost of sales and administrative expenses and operating lease commitments are disclosed in the note to the financial statements.

Under HKFRS 16, all leases (except for those with lease term of less than 12 months or of low value) are recognised as right-of-use assets under property plant and equipment and lease liabilities (being the obligation to pay for the right-of-use assets) in the combined statements of financial position. Depreciation expenses of right-of-use assets (on a straight line basis) and interest expenses on the lease liabilities (based on effective interest rate method) are recognised in the combined statements of comprehensive income.

The adoption of HKFRS 16 has impact on the recognition of right-of-use assets and lease liabilities as well as the recognition of depreciation charges of right-of-use assets and the interest expense on lease liabilities. However, the amounts of such impacts were not significant to our Group's combined financial position and performance and key financial ratio.

Based on above assessment, the adoption of HKFRS 9, HKFRS 15 and HKFRS 16 did not have significant impacts to our combined financial position and performance during the Track Record Period.

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

The following table sets out certain items derived from our combined statements of comprehensive income during the Track Record Period:

	For the year ended 31 December			For the eight months ended 31 August	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Revenue	214,025	259,185	278,717	149,380	210,240
Cost of sales	(129,242)	(166,765)	(183,110)	(98,687)	(131,747)
Gross profit	84,783	92,420	95,607	50,693	78,493
Selling expenses	(16,850)	(16,046)	(16,607)	(10,996)	(13,302)
Administrative expenses	(27,165)	(33,379)	(33,567)	(21,183)	(29,656)
Net impairment reversed/(losses) on financial assets	281	(6,834)	(1,324)	(3,187)	(1,038)
Other income	448	10,633	5,659	2,250	3,052
Other gains/(losses) — net	805	138	(463)	(533)	4,645
Operating profit	42,302	46,932	49,305	17,044	42,194
Finance income	80	246	275	172	946
Finance costs	(3,718)	(4,944)	(8,003)	(4,634)	(6,173)
Finance costs — net	(3,638)	(4,698)	(7,728)	(4,462)	(5,227)
Profit before income tax	38,664	42,234	41,577	12,582	36,967
Income tax expenses	(5,219)	(6,147)	(8,824)	(1,308)	(9,217)
Profit for the year/period	33,445	36,087	32,753	11,274	27,750
Profit/(loss) attributable to					
Owners of the Company	33,445	36,087	32,773	11,294	27,750
Non-controlling interests	—	—	(20)	(20)	—
	33,445	36,087	32,753	11,274	27,750
Other comprehensive income					
Items that may be reclassified to profit or loss:					
Currency translation differences	392	(2,185)	1,417	(115)	684
Other comprehensive income/(loss) for the year/period	392	(2,185)	1,417	(115)	684
Total comprehensive income/(loss) for the year/period	33,837	33,902	34,170	11,159	28,434

DESCRIPTION OF SELECTED ITEMS IN COMBINED STATEMENTS OF COMPREHENSIVE INCOME AND DISCUSSION OF RESULTS OF OPERATION

Revenue

We principally design, develop, manufacture and sell high quality smart toy vehicles, smart interactive toys and traditional toys. We have also commenced selling smart hardware during the Track Record Period. Our products are (i) branded with our "kidztech" brand; (ii) co-branded with (aa) renowned automobile manufacturers, (bb) popular entertainment characters featured in animated television series or motion pictures, or (cc) toy brand owner; and (iii) branded under our overseas customers' brands, which mainly represent the products we manufacture on ODM and OEM bases and the products sold to our customers branded under their respective brands.

By product type

The following table sets forth the breakdown of our revenue by product type for the years/periods indicated:

	For the year ended 31 December						For the eight months ended 31 August			
	2016		2017		2018		2018		2019	
	Revenue	%	Revenue	%	Revenue	%	Revenue	%	Revenue	%
	RMB'000		*RMB'000*		*RMB'000*		*RMB'000* *(unaudited)*		*RMB'000*	
Smart toys										
— Smart toy vehicles	171,967	80.4	219,220	84.6	218,120	78.3	119,440	80.0	135,617	64.5
— Smart interactive toys	22,753	10.6	15,555	6.0	19,659	7.0	9,943	6.7	19,381	9.2
Sub-total:	194,720	91.0	234,775	90.6	237,779	85.3	129,383	86.7	154,998	73.7
Traditional toys *(Note)*	19,305	9.0	24,410	9.4	34,500	12.4	16,646	11.1	52,182	24.8
Smart hardware	—	—	—	—	6,438	2.3	3,351	2.2	3,060	1.5
Total	214,025	100.0	259,185	100.0	278,717	100.0	149,380	100.0	210,240	100.0

Note: Approximately RMB17.8 million, RMB24.4 million, RMB34.5 million, RMB16.6 million and RMB50.3 million are derived from sale of traditional toy vehicles during the year ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2018 and 2019, respectively.

Smart toys

During the Track Record Period, our total revenue amounted to approximately RMB214.0 million, RMB259.2 million, RMB278.7 million and RMB210.2 million for the year ended 31 December 2016, 2017 and 2018 and for the eight months ended 31 August 2019, respectively. During the Track Record Period, our Group's revenue from smart toys accounted for approximately 91.0%, 90.6%, 85.3% and 73.7% of our total revenue, respectively, among which, our Group's revenue from smart toy vehicles accounted for approximately 80.4%, 84.6%, 78.3% and 64.5% of our total revenue, respectively, while revenue from smart interactive toys accounted for approximately 10.6%, 6.0%, 7.0% and 9.2% of our total revenue, respectively.

Our revenue from smart toys increased from approximately RMB194.7 million for the year ended 31 December 2016 to approximately RMB234.8 million for the year ended 31 December 2017, mainly due to the increase in revenue from smart toy vehicles by approximately RMB47.3 million. Such increase in revenue from smart toy vehicles was primarily attributable to the increase in sale to Dickie by approximately RMB50.3 million from 2016 to 2017. Dickie engaged us to manufacture a kind of smart toy vehicle featuring certain characters of a motion picture related to cars which was particularly popular in 2017. The increase in revenue from smart toys was partially offset by the decrease in revenue from smart interactive toys, mainly due to the decrease in average selling price of smart interactive toys from approximately RMB28.1 per unit in 2016 to approximately RMB16.8 per unit in 2017.

Our revenue from smart toys increased from approximately RMB234.8 million for the year ended 31 December 2017 to approximately RMB237.8 million for the year ended 31 December 2018, mainly due to the increase in revenue from smart interactive toys by approximately RMB4.1 million, which was primarily attributable to the increase in average selling price of smart interactive toys from approximately RMB16.8 per unit in 2017 to approximately RMB27.4 per unit in 2018.

Our revenue from smart toys increased from approximately RMB129.4 million for the eight months ended 31 August 2018 to approximately RMB155.0 million for the eight months ended 31 August 2019, mainly due to the increase in revenue from smart toy vehicles by approximately RMB16.2 million and smart interactive toys by approximately RMB9.4 million, primarily attributable to (i) the increase in sale to one of our overseas retailer customers by approximately RMB22.1 million, in which (a) approximately RMB14.8 million were contributed from the increase in the sale of our co-branded smart toy vehicles; and (b) approximately RMB7.3 million were contributed from the increase in sale of our smart interactive toys branded under the brand of the Renowned Multinational Retailer; and (ii) the increase in sale of our smart interactive toys primarily due to the increase in sale of our co-branded products branded under the brand of the Famous Toy Brand Licensor, such as electronic piano, walkie-talkie and toy guitar.

Traditional toys

During the Track Record Period, our Group's revenue from traditional toys accounted for approximately 9.0%, 9.4%, 12.4% and 24.8% of our total revenue, respectively. Our revenue from traditional toys increased during the Track Record Period mainly because (i) the average selling price of our traditional toys for the year ended 31 December 2017 had increased as compared to that of the year ended 31 December 2016; and (ii) we increasingly sold traditional toys, mainly comprised pull back toy vehicles and inertia toy vehicles, during the Track Record Period, as there was an overall increase in our production capacity during the two years ended 31 December 2018, and we utilised some of our capacity to produce traditional toys for the year ended 31 December 2018 and for the eight months ended 31 August 2019. To the best of our Directors' knowledge, information and belief, our potential customers had been expressing their interests in our traditional toys, while our Group could not accommodate some of those customers' orders until our production capacity had increased.

Smart hardware

We also commenced sale of smart hardware, such as Bluetooth speakers, to our customers for the year ended 31 December 2018, and our Group's revenue generated from the sale of our smart hardware accounted for approximately 2.2% and 1.5% of our total revenue for the year ended 31 December 2018 and for the eight months ended 31 August 2019.

Save as above, during the Track Record Period, there was no significant change in our product mix whereby smart toy vehicles remained as our major products sold to our customers.

Sales quantity and average selling price

The following table sets forth our sales quantity and average selling price by product type for the years/periods indicated:

	For the year ended 31 December						For the eight months ended 31 August			
	2016		2017		2018		2018		2019	
	Sales quantity	Average selling price	Sales quantity	Average selling price	Sales quantity	Average selling price	Sales quantity	Average selling price	Sales quantity	Average selling price
	'000 units	*RMB per unit*	*'000 units*	*RMB per unit*	*'000 units*	*RMB per unit*	*'000 units*	*RMB per unit*	*'000 units*	*RMB per unit*
Smart toys										
— Smart toy vehicles	2,668	64.5	4,299	51.0	3,717	58.7	2,097	57.0	2,382	56.9
— Smart interactive toys	810	28.1	924	16.8	717	27.4	262	38.0	806	24.0
Traditional toys	1,661	11.6	1,436	17.0	2,474	13.9	1,229	13.5	3,884	13.4
Smart hardware	—	—	—	—	60	107.0	30	111.7	25	122.4
	5,139	41.6	6,659	38.9	6,968	40.0	3,618	41.3	7,097	29.6

Sales quantity

Our total sales quantity increased from approximately 5.1 million units for the year ended 31 December 2016 to approximately 6.7 million units for the year ended 31 December 2017, and further increased to approximately 7.0 million units for the year ended 31 December 2018. Our total sales quantity increased from approximately 3.6 million units for the eight months ended 31 August 2018 to approximately 7.1 million units for the eight months ended 31 August 2019. The fluctuation on sales quantity during the Track Record Period was mainly affected by fluctuations on sales quantities of smart toy vehicles and traditional toys.

Smart toy vehicles

Our sales quantity of smart toy vehicles increased from approximately 2.7 million units for the year ended 31 December 2016 to approximately 4.3 million units for the year ended 31 December 2017. Such increase in our sales quantity in smart toy vehicles was mainly due to the increase in sales quantity of smart toy vehicles to Dickie by approximately 1.4 million units in 2017. Dickie engaged us to manufacture a kind of smart toy vehicle featuring certain characters of a motion picture related to cars which was particularly popular in 2017.

Our sales quantity of smart toy vehicles decreased to approximately 3.7 million units for the year ended 31 December 2018 due to the decrease in orders from Dickie as the abovementioned kind of smart toy vehicle was not as popular in 2018 and Dickie diversified its development of different kinds of product apart from smart toy vehicles.

Our sales quantity of smart toy vehicles increased from approximately 2.1 million units for the eight months ended 31 August 2018 to approximately 2.4 million units for the eight months ended 31 August 2019 due to the increase in sales quantity of our co-branded smart toy vehicles to one of our overseas retailer customers, which was a company traded under the name of the Renowned Multinational Retailer.

Smart interactive toys

Our sales quantity of smart interactive toys was approximately 0.8 million units, 0.9 million units and 0.7 million units for the year ended 31 December 2016, 2017 and 2018, respectively, which remained relatively stable. Our sales quantity of smart interactive toys increased from approximately 0.3 million units for the eight months ended 31 August 2018 to approximately 0.8 million units for the eight months ended 31 August 2019, which was mainly due to increase in sale of "kidztech" branded pull string helicopter toys by approximately 0.5 million units for the eight months ended 31 August 2019.

Traditional toys

Our sales quantity of traditional toys amounted to approximately 1.7 million units, 1.4 million units, 2.5 million units and 3.9 million units for the year ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2019, respectively. We increasingly sold traditional toys, mainly comprised pull back toy vehicles and inertia toy vehicles, during the Track Record Period, as there was an overall increase in our production capacity during the two years ended 31 December 2018, and we utilised some of our capacity to produce traditional toys to satisfy the demand from our customers. To the best of our Directors' knowledge, information and belief, our potential customers had been expressing their interests in our traditional toys, while our Group could not accommodate some of those customers' orders until our production capacity had increased.

Smart hardware

We commenced sales of smart hardware, such as Bluetooth speakers, to our customers during the year ended 31 December 2018. Our sales quantity of smart hardware amounted to approximately 60,000 units for the year ended 31 December 2018. Furthermore, our sales quantity of smart hardware was approximately 30,000 units and 25,000 units for the eight months ended 31 August 2018 and 2019, respectively, which remained relatively stable.

Average selling price

Our average selling price remained relatively stable for the three years ended 31 December 2018 at RMB41.6 per unit, RMB38.9 per unit and RMB40.0 per unit, respectively. Our average selling price decreased significantly from approximately RMB41.3 per unit for the eight months ended 31 August 2018 to approximately RMB29.6 per unit for the eight months ended 31 August 2019. The fluctuation in the average selling price of our products during the Track Record Period was mainly affected by the fluctuations in the average selling price of smart toy vehicles, smart interactive toys and traditional toys.

Smart toy vehicles

Our average selling price of smart toy vehicles decreased from approximately RMB64.5 per unit for the year ended 31 December 2016 to approximately RMB51.0 per unit for the year ended 31 December 2017, mainly due to the increase in sales quantity of smart toy vehicles by approximately 1.4 million units to Dickie on ODM and OEM bases in 2017, and such smart toy vehicles had relatively lower selling price.

Our average selling price of smart toy vehicles increased from approximately RMB51.0 per unit for the year ended 31 December 2017 to approximately RMB58.7 per unit for the year ended 31 December 2018, mainly due to the decrease in sale of the relatively lower priced smart toy vehicles to Dickie in 2018 as compared to that in 2017.

Further, our average selling price of smart toy vehicles was approximately RMB57.0 per unit and RMB56.9 per unit for the eight months ended 31 August 2018 and 2019, respectively, which remained relatively stable.

Smart interactive toys

Our average selling price of smart interactive toys decreased from approximately RMB28.1 per unit for the year ended 31 December 2016 to approximately RMB16.8 per unit for the year ended 31 December 2017, which was mainly due to the increase in sales quantity of "kidztech" branded pull string helicopter toys by approximately 0.3 million units and such smart interactive toy had a relatively lower selling price.

Our average selling price of smart interactive toys decreased from approximately RMB38.0 per unit for the eight months ended 31 August 2018 to approximately RMB24.0 per unit for the eight months ended 31 August 2019, mainly because no pull string helicopter toys were sold during the eight months ended 31 August 2018, as compared to the sale of approximately 0.5 million units of pull string helicopter toys during the eight months ended 31 August 2019. Further, the selling price of our smart interactive toys for the year ended 31 December 2018 was lower than that for the eight months ended 31 August 2018, which was mainly due to the sale of approximately 0.2 million units of pull string helicopter toys in November and December 2018.

Traditional toys

Our average selling price of traditional toys increased from approximately RMB11.6 per unit for the year ended 31 December 2016 to RMB17.0 per unit for the year ended 31 December 2017, which was mainly due to the increase in sales quantity of our co-branded traditional toys to overseas customers which have relatively higher average selling price of approximately RMB18.0 per unit.

Our average selling price of traditional toys decreased from approximately RMB17.0 per unit for the year ended 31 December 2017 to RMB13.9 per unit for the year ended 31 December 2018, mainly due to the increase in sales quantity of "kidztech" branded products to PRC customers, which have relatively lower average selling price per unit.

Further, the selling price of traditional toys amounted to approximately RMB13.5 per unit and RMB13.4 per unit for the eight months ended 31 August 2018 and 2019, respectively, which were relatively stable.

By brand

Our products are (i) branded with our "kidztech" brand; (ii) co-branded with renowned automobile manufacturers, popular entertainment characters featured in animated television series or motion pictures or toy brand owner; or (iii) branded under our overseas customers' brands, which mainly represent the products we manufacture on ODM and OEM bases and the products sold to our customers branded under their respective brands.

The following table sets out the breakdown of our revenue attributable to products under different brands for the years/periods indicated:

	For the year ended 31 December						For the eight months ended			
	2016		2017		2018		2018		2019	
	Revenue RMB'000	*%*	*Revenue RMB'000*	*%*	*Revenue RMB'000*	*%*	*Revenue RMB'000 (unaudited)*	*%*	*Revenue RMB'000*	*%*
"kidztech" brand	80,367	37.5	80,852	31.2	144,572	51.8	72,960	48.9	103,517	49.2
Co-brand	113,971	53.3	114,104	44.0	111,641	40.1	64,598	43.2	89,300	42.5
Overseas customers' brands *(Note)*	19,687	9.2	64,229	24.8	22,504	8.1	11,822	7.9	17,423	8.3
Total	214,025	100.0	259,185	100.0	278,717	100.0	149,380	100.0	210,240	100.0

Note: Mainly represent overseas customers which engaged us on ODM and OEM bases and customers which we sold our products branded under their respective brands.

As illustrated above, during the Track Record Period, our revenue derived from our "kidztech" branded products accounted for approximately 37.5%, 31.2%, 51.8% and 49.2% of our total revenue, respectively. Our Group's revenue derived from co-branded products accounted for approximately 53.3%, 44.0%, 40.1% and 42.5% of our total revenue, respectively. Our revenue derived from our overseas customers' branded products accounted for approximately 9.2%, 24.8%, 8.1% and 8.3% of our total revenue, respectively.

"Kidztech" brand

Our revenue generated from "kidztech" branded products remained stable at approximately RMB80.4 million for the year ended 31 December 2016 and approximately RMB80.9 million for the year ended 31 December 2017, and increased by approximately RMB63.7 million to approximately RMB144.6 million for 31 December 2018. Such increase was mainly due to the fact that we placed more effort on the sale of our products to customers in the PRC so as to diversify our customer base. In particular, we expanded our presence in the overseas market through the PRC Export-Oriented Wholesalers and in the PRC market through PRC retailers, where "kidztech" branded products being mainly sold to PRC Export-Oriented Wholesalers and PRC retailer customers.

Our revenue generated from "kidztech" branded products increased from approximately RMB73.0 million for the eight months ended 31 August 2018 to approximately RMB103.5 million for the eight months ended 31 August 2019, mainly due to the increase in sale of our traditional toys which primarily comprised pull back toy vehicles and inertia toy vehicles. To the best of our Directors' knowledge, information and belief, our potential customers had been expressing their interests in our traditional toys, while our Group could not accommodate some of those customers' orders until our production capacity had increased, and we utilised some of our capacity to produce traditional toys to satisfy the demand from our customers.

Co-brand

Our revenue generated from co-branded products remained stable at approximately RMB114.0 million, RMB114.1 million and RMB111.6 million for the year ended 31 December 2016, 2017 and 2018, respectively.

Our revenue generated from co-branded products increased by approximately RMB24.7 million from approximately RMB64.6 million for the eight months ended 31 August 2018 to approximately RMB89.3 million for the eight months ended 31 August 2019. Such increase was mainly due to the increase in sale of our co-branded smart toy vehicles to one of our overseas retailer customers, which was a company traded under the name of the Renowned Multinational Retailer.

Overseas customers' brands

Our revenue generated from our overseas customers' branded products increased by approximately RMB44.5 million from approximately RMB19.7 million for the year ended 31 December 2016 to approximately RMB64.2 million for the year ended 31 December 2017, and decreased by approximately RMB41.7 million to approximately RMB22.5 million for the year ended 31 December 2018, mainly due to higher sales generated from sales to Dickie in 2017 of approximately RMB61.8 million as compared to that in 2016 and 2018. Dickie engaged us to manufacture a kind of smart toy vehicle featuring certain characters of a motion picture related to cars which was particularly popular in 2017.

Our revenue generated from our overseas customers' branded products increased by approximately RMB5.6 million from approximately RMB11.8 million for the eight months ended 31 August 2018 to RMB17.4 million for the eight months ended 31 August 2019, which was mainly due to the increase in sale of smart interactive toys branded under our overseas customer's brand to one of our overseas retailer customers, which was a company traded under the name of the Renowned Multinational Retailer.

By geographical region

The following table sets forth the breakdown of our revenue by geographical regions as determined by destination of delivery for the years/periods indicated:

	For the year ended 31 December						For the eight months ended 31 August			
	2016		2017		2018		2018		2019	
	Revenue RMB'000	*%*	*Revenue RMB'000*	*%*	*Revenue RMB'000*	*%*	*Revenue RMB'000 (unaudited)*	*%*	*Revenue RMB'000*	*%*
North America	65,355	30.5	64,210	24.8	55,815	20.0	32,876	22.0	54,912	26.1
Europe	68,707	32.1	86,896	33.5	56,632	20.3	28,412	19.0	35,808	17.0
PRC *(Note 1)*	56,151	26.2	79,947	30.8	144,898	52.0	71,918	48.1	110,005	52.3
Asia, excluding the PRC	10,791	5.0	17,940	6.9	11,710	4.2	7,312	4.9	3,524	1.7
Others *(Note 2)*	13,021	6.2	10,192	4.0	9,662	3.5	8,862	6.0	5,991	2.9
Total	214,025	100.0	259,185	100.0	278,717	100.0	149,380	100.0	210,240	100.0

Notes:

1. Approximately RMB37.9 million, RMB56.0 million, RMB83.8 million and RMB77.6 million of our total revenue were derived from our sales to PRC Export-Oriented Wholesalers during the Track Record Period, respectively.

2. Others include Oceania, South America and Africa.

North America and Europe

During the Track Record Period, our products were sold to over 50 countries across six continents, sale of our products to customers in North America and Europe contributed approximately 62.6%, 58.3%, 40.3% and 43.1% of our total revenue in aggregate, respectively. Sale to the U.S. accounted for approximately RMB49.3 million, RMB47.6 million, RMB43.8 million and RMB45.2 million, respectively, representing approximately 23.0%, 18.4%, 15.7% and 21.5% of our total revenue during the Track Record Period, respectively. Sale to the U.K. accounted for approximately RMB17.1 million, RMB19.2 million, RMB10.3 million and RMB8.6 million, respectively, representing approximately 8.0%, 7.4%, 3.7% and 4.1% of our total revenue during the Track Record Period, respectively. The decrease in sale of our products to customers in North America and Europe for the year ended 31 December 2018 was mainly due to the decrease in our sale to the Renowned Toy Specialty Retailer US and the Renowned Toy Specialty Retailer Netherlands as a result of the Retailer's Liquidation.

The sale of our products to customers in North America increased by approximately RMB22.0 million from approximately RMB32.9 million for the eight months ended 31 August 2018 to approximately RMB54.9 million for the eight months ended 31 August 2019, mainly due to the overall increase in sale to our overseas retailer customers, in particular, the sale of our co-branded smart toy vehicles to a company traded under the name of the Renowned Multinational Retailer.

PRC

The sale of our products to customers in the PRC contributed approximately 26.2%, 30.8%, 52.0% and 52.3% of our total revenue, respectively, during the Track Record Period. Such increasing trend was mainly due to the fact that we placed more effort on sale of our products to customers in the PRC, in particular PRC Export-Oriented Wholesalers in 2018, so as to diversify our customer base and expand the overseas market.

Asia

The sale of our products to customers in Asia (excluding the PRC) increased from approximately RMB10.8 million to approximately RMB17.9 million from the year ended 31 December 2016 to the year ended 31 December 2017, mainly due to the increase in sale of smart toys to Dickie in 2017 from approximately RMB0.5 million for the year ended 31 December 2016 to approximately RMB8.7 million for the year ended 31 December 2017, and such products were delivered to Asia (excluding the PRC). Dickie engaged us to manufacture a kind of smart toy vehicle featuring certain characters of a motion picture related to cars which was particularly popular in 2017.

By customer type

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

	For the year ended 31 December						For the eight months ended 31 August			
	2016		2017		2018		2018		2019	
	Revenue RMB'000	*%*	*Revenue RMB'000*	*%*	*Revenue RMB'000*	*%*	*Revenue RMB'000 (unaudited)*	*%*	*Revenue RMB'000*	*%*
Retailers										
— Overseas retailers	127,249	59.5	105,597	40.7	98,798	35.4	58,478	39.2	77,423	36.8
— PRC retailers	14,950	7.0	15,897	6.2	39,525	14.2	23,183	15.5	22,668	10.8
Sub-total:	142,199	66.5	121,494	46.9	138,323	49.6	81,661	54.7	100,091	47.6
Wholesalers										
— Overseas wholesalers	13,892	6.5	10,873	4.2	14,395	5.2	8,260	5.5	14,456	6.9
— PRC Export-Oriented Wholesalers	37,871	17.7	55,958	21.6	83,759	30.1	40,150	26.9	77,592	36.9
— PRC Domestic-Sale-Oriented Wholesalers	1,959	0.9	8,089	3.1	19,368	6.9	8,426	5.6	9,292	4.4
Sub-total:	53,722	25.1	74,920	28.9	117,522	42.2	56,836	38.0	101,340	48.2
Overseas ODM and OEM customers	16,733	7.8	62,768	24.2	20,626	7.4	10,725	7.2	8,356	4.0
Others (Note)	1,371	0.6	3	0.0	2,246	0.8	158	0.1	453	0.2
Total	214,025	100.0	259,185	100.0	278,717	100.0	149,380	100.0	210,240	100.0

Note: Others mainly represent companies engaging in various kinds of businesses, including kids-related businesses, which to the best of our Directors' knowledge and belief, purchased our products as ancillary gifts to their customers.

Retailers

During the Track Record Period, our Group's revenue derived from our retailer customers accounted for approximately RMB142.2 million, RMB121.5 million, RMB138.3 million and RMB100.1 million, respectively.

The decrease in our revenue from our retailer customers from 2016 to 2017 was mainly because of the decrease in our sales to overseas retailer customers, in particular the Renowned Toy Specialty Retailer US and the Renowned Toy Specialty Retailer Netherlands as a result of the Retailer's Liquidation.

The increase in our revenue from our retailer customers from 2017 to 2018 was mainly due to the expansion of our presence in the PRC market through PRC retailers, such as PRC retailers traded under the name of the Renowned Multinational Retailer and the Renowned Toy Specialty Retailer. We had more than 70 new PRC retailer customers in 2018, and such new customers contributed approximately RMB21.5 million of our revenue in 2018.

Our Group's revenue derived from our retailer customers increased from approximately RMB81.7 million for the eight months ended 31 August 2018 to approximately RMB100.1 million for the eight months ended 31 August 2019, mainly due to the increase in overall sales to our overseas retailer customers, in particular the sale of our co-branded smart toy vehicles to a company traded under the name of the Renowned Multinational Retailer.

Wholesalers

For the year ended 31 December 2016, 2017 and 2018, our Group's revenue derived from wholesaler customers amounted to approximately RMB53.7 million, RMB74.9 million and RMB117.5 million, respectively. Our Group's revenue derived from wholesaler customers increased from approximately RMB56.8 million for the eight months ended 31 August 2018 to approximately RMB101.3 million for the eight months ended 31 August 2019.

In respect of the decrease in sales to the Renowned Toy Specialty Retailer US and the Renowned Toy Specialty Retailer Netherlands as a result of the Retailer's Liquidation, our Group intends to diversify our customer base and expand the overseas market through wholesalers, in particular PRC Export-Oriented Wholesalers so as to diversify our risks. The increase of our Group's revenue derived from wholesaler customers during the Track Record Period was mainly due to the increase in sales to the PRC Export-Oriented Wholesalers which accounted for approximately RMB37.9 million, RMB56.0 million, RMB83.8 million and RMB77.6 million, respectively.

Overseas ODM and OEM customers

For the year ended 31 December 2016, 2017 and 2018, our Group's revenue derived from our overseas ODM and OEM customers amounted to approximately RMB16.7 million, RMB62.8 million and RMB20.6 million, respectively. Our Group's revenue derived from our overseas ODM and OEM customers decreased from approximately RMB10.7 million for the eight months ended 31 August 2018 to approximately RMB8.4 million for the eight months ended 31 August 2019.

Our Group had four ODM and OEM customers during the Track Record Period, of which Dickie contributed approximately RMB11.5 million, RMB61.8 million, RMB20.3 million and RMB8.2 million during the Track Record Period respectively. As such, fluctuation of our sale to overseas ODM and OEM customers was mainly affected by the change in amount of purchase orders from Dickie during the Track Record Period. The decrease in our revenue derived from our overseas ODM and OEM customers for the year ended 31 December 2018 and for the eight months ended 31 August 2019 was mainly due to decrease in sales to Dickie as it diversified its development of different kinds of products apart from smart toy vehicles.

Overall

Our total revenue increased by approximately RMB45.2 million, or approximately 21.1%, from approximately RMB214.0 million for the year ended 31 December 2016 to approximately RMB259.2 million for the year ended 31 December 2017, primarily due to the increase in sale to Dickie by approximately RMB50.3 million in 2017, especially for the sale of smart toy vehicles as mentioned above.

Our total revenue increased by approximately RMB19.5 million, or approximately 7.5%, from approximately RMB259.2 million for the year ended 31 December 2017 to approximately RMB278.7 million for the year ended 31 December 2018, primarily due to (i) the increase in sale of traditional toys by RMB10.1 million which mainly comprised pull back traditional toy vehicles and inertia toy vehicles, which were mainly sold to PRC Export-Oriented Wholesalers and PRC retailers. There was an overall increase in our production capacity during the year ended 31 December 2017 and 2018, thereby enabling us to utilise some of our production capacity to produce traditional toys. To the best of our Directors' knowledge, information and belief, our potential customers had been expressing their interests in our traditional toys, while our Group could not accommodate some of those customers' orders until our production capacity had increased; (ii) increase in sale of smart interactive toys by approximately RMB4.1 million from 2017 to 2018; and (iii) the commencement of our sale of smart hardware with sales of approximately RMB6.4 million, such as Bluetooth speakers and smart watches for children, in 2018.

Our total revenue increased by approximately 40.7% from approximately RMB149.4 million for the eight months ended 31 August 2018 to approximately RMB210.2 million for the eight months ended 31 August 2019. Such increase was primarily due to (i) the increase in sale to one of our major overseas retailer customers by approximately RMB22.1 million, of which (a) approximately RMB14.8 million were contributed from the increase in the sale of our co-branded smart toy vehicles; and (b) approximately RMB7.3 million were contributed from the increase in sale of our smart interactive toys branded under the brand of the Renowned Multinational Retailer; (ii) the increase in sale of our smart interactive toys primarily due to the increase in sale of our co-branded products branded under the brand of the Famous Toy Brand Licensor, such as electronic piano, walkie-talkie and toy guitar; and (iii) the increase in sale of traditional toys to our customers in the PRC due to the above reason, in particular PRC Export-Oriented Wholesalers, during the eight months ended 31 August 2019. According to the CIC Report, the global toy market is expected to grow steadily from 2019 to 2023 since other retailers such as Walmart has taken over the market share of Toys 'R' Us, while the toy export value of the PRC increased by approximately 23.7% in the first half of 2019, as compared to the same period last year.

Cost of sales

Cost of sales primarily represented the costs we incur directly for the manufacture and sale of our toy products. The principal components of cost of sales in connection with the manufacture and sale of our toy products include (i) raw materials and goods used; (ii) staff costs; (iii) depreciation and amortisation expenses; (iv) royalty expenses; and (v) subcontracting charges.

The table below sets forth a breakdown of our cost of sales by nature for the years/periods indicated:

	Year ended 31 December						Eight months ended 31 August			
	2016		2017		2018		2018		2019	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000* *(unaudited)*	%	*RMB'000*	%
Raw materials and goods used	82,095	63.5	107,013	64.2	120,935	66.0	64,979	65.8	86,499	65.7
Staff costs	8,627	6.7	21,374	12.8	28,716	15.7	16,340	16.6	21,822	16.6
Depreciation and amortisation expenses	7,374	5.7	11,597	7.0	10,583	5.8	6,745	6.8	7,656	5.8
Royalty expenses	12,111	9.4	13,023	7.7	13,651	7.4	7,559	7.7	9,561	7.2
Subcontracting charges	15,793	12.2	9,499	5.7	4,535	2.5	1,774	1.8	3,316	2.5
Others	3,242	2.5	4,259	2.6	4,690	2.6	1,290	1.3	2,893	2.2
Total	**129,242**	**100.0**	**166,765**	**100.0**	**183,110**	**100.0**	**98,687**	**100.0**	**131,747**	**100.0**

Raw materials and goods used were the largest component of our cost of sales and primarily consisted of cost of raw materials such as plastic resins, electronic parts, packaging materials, pigment and chemical materials.

Staff costs represent salaries and wages, insurance and staff welfare of our manufacturing operations.

Depreciation and amortisation expenses are primarily related to moulds, plant and machinery and tools for production used.

Royalty expenses are licence fees paid to our licensors for the use of licensed intellectual properties for production of our co-branded products.

Subcontracting charges are fees paid for the outsourcing parts of our manufacturing processes, including injection of plastic moulds, assembling and packaging services, to third parties subcontractors usually during our peak seasons.

Others mainly represent utilities and business and other taxes.

Our cost of sales increased by approximately RMB37.6 million, or by approximately 29.0%, from approximately RMB129.2 million for the year ended 31 December 2016 to approximately RMB166.8 million for the year ended 31 December 2017. Such increase in cost of sales was in line with the increase in revenue during the same period. The percentage increase in cost of sales was greater than the percentage increase in revenue from 2016 to 2017 mainly because (i) the increase in our staff costs was a result of the increase in number of staff and their overall salaries; and (ii) increase in depreciation amount as we acquired and commenced operation with additional plastic injection moulding machines in 2017. Our cost of sales increased by approximately RMB16.3 million, or 9.8%, from approximately RMB166.8 million for the year ended 31 December 2017 to approximately RMB183.1 million for the year ended 31 December 2018. Such increase in cost of sales was generally in line with the increase in revenue during the same period.

Our staff costs increased by approximately 147.8% from approximately RMB8.6 million for the year ended 31 December 2016 to approximately RMB21.4 million for the year ended 31 December 2017, mainly due to the expansion of our production capacity and we hired more production staff in 2017. During the Track Record Period, our subcontracting charges amounted to approximately RMB15.8 million, RMB9.5 million, RMB4.5 million and RMB3.3 million, respectively. In 2016 and 2017, we mainly engaged subcontractors for assembling and packaging services. The decrease in our subcontracting charges from 2016 to 2017 was mainly due to our increase in number of staff and we ceased to engage subcontractors to provide assembling and packaging services since the second half of 2017 as such processes had been undertaken by us following our expansion of production capacity. In 2018 and for the eight months ended 31 August 2019, we mainly engaged subcontractors for plastic injection services. Subcontracting charges increased from approximately RMB1.8 million for the eight months ended 31 August 2018 to approximately RMB3.3 million in the eight months ended 31 August 2019, which was due to the increase in production and revenue during the same period. Our raw materials and goods used and royalty expenses increased during the Track Record Period which was in line with the increase in our revenue during the respective year/period.

Our cost of sales increased by approximately 33.4% from approximately RMB98.7 million for the eight months ended 31 August 2018 to approximately RMB131.7 million for the eight months ended 31 August 2019. Such increase was in line with the increase in revenue during the same period. The increase in cost of sales was mainly attributable to the (i) increase in cost of raw materials by approximately 33.1% as a result of the increase in sale of our products during the eight months ended 31 August 2019; (ii) increase in staff costs by approximately 33.5% as a result of the increase in number of staff and staff salaries; (iii) increase in royalty expenses due to the increase in sale to our overseas retailer customers that mainly involved our co-branded products; and (iv) increase in subcontracting charges for plastic injection services during the eight months ended 31 August 2019.

Gross profit and gross profit margin

The following table sets forth a breakdown of gross profit and gross profit margin by product type, brand and customer for the years/periods indicated:

By product type

	For the year ended 31 December						For the eight months ended 31 August			
	2016		2017		2018		2018		2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* *(unaudited)*	*%*	*RMB'000*	*%*
Smart toys										
— Smart toy vehicles	68,811	40.0	77,351	35.3	74,670	34.2	40,121	33.6	53,705	39.6
— Smart interactive toys	8,136	35.8	5,935	38.2	7,797	39.7	4,501	45.3	7,209	37.2
	76,947	39.5	83,286	35.5	82,467	34.7	44,622	34.5	60,914	39.3
Traditional toys	7,836	40.6	9,134	37.4	11,505	33.3	5,518	33.1	16,755	32.1
Smart hardware	—	—	—	—	1,635	25.4	553	16.5	824	26.9
	84,783	39.6	92,420	35.7	95,607	34.3	50,693	33.9	78,493	37.3

Smart toys

As illustrated above, our gross profit generated from smart toys increased from approximately RMB76.9 million for the year ended 31 December 2016 to approximately RMB83.3 million for the year ended 31 December 2017 mainly due to the increase in gross profit generated from our smart toy vehicles by approximately RMB8.5 million as a result of the increase in sale of smart toy vehicles to Dickie in 2017. Our gross profit margin of our smart toys decreased from approximately 39.5% in 2016 to approximately 35.5% in 2017 which was mainly due to (i) the decrease in profit margin of smart toy vehicles primarily attributable to the increase in proportion of our revenue generated from the sale of smart toy vehicles to our PRC customers among our total sales of smart toy vehicles from approximately 22.0% to approximately 30.2% for the year ended 31 December 2016 and 2017, respectively, as sales to PRC customers generally generate relatively lower profit margin; and (ii) the increase in staff costs and depreciation amount in 2017 as we expanded production capacity and acquired and commenced operation with additional plastic injection moulding machines in 2017, and partially offset by the growth of gross profit margin of our smart interactive toys due to the increase in proportion of our revenue generated from overseas customers. The gross profit and gross profit margin of our smart toys remained relatively stable for the year ended 31 December 2017 and 2018.

Our gross profit generated from smart toys increased from approximately RMB44.6 million for the eight months ended 31 August 2018 to approximately RMB60.9 million for the eight months ended 31 August 2019, which was in line with our revenue growth during the same period. Our gross profit margin of our smart toys increased from approximately 34.5% for the eight months ended 31 August 2018 to 39.3% for the eight months ended 31 August 2019, mainly due to (i) the increase in overall sales to our overseas retailer customers by approximately RMB18.9 million, in particular the sale of our co-branded smart toy vehicles to a company traded under the name of the Renowned Multinational Retailer, and such products had relatively higher profit margin; and (ii) the appreciation of US dollars against RMB as we usually billed our overseas customers in US dollars, and partially offset by the decrease in gross profit margin of smart interactive toys due to increase in sales to our PRC customers with lower profit margin.

Traditional toys

Our gross profit generated from traditional toys amounted to approximately RMB7.8 million, RMB9.1 million and RMB11.5 million for the years ended 31 December 2016, 2017 and 2018, respectively, and our gross profit generated from traditional toys amounted to approximately RMB5.5 million and RMB16.8 million for the eight months ended 31 August 2018 and 2019, respectively. Such increasing trend in our gross profit generated from traditional toys was mainly due to the increase in revenue generated from traditional toys. The gross profit margin of traditional toys decreased from approximately 40.6% for the year ended 31 December 2016 to approximately 37.4% for the year ended 31 December 2017 primarily due to (i) the increase in proportion of revenue generated from the sale of traditional toys to PRC customers in 2017 which had a lower profit margin; and (ii) the increase in depreciation and staff cost as we expanded our production capacity and hired more staff for production. The gross profit margin of traditional toys decreased from approximately 37.4% for the year ended 31 December 2017 to approximately 33.3% for the year ended 31 December 2018, and further decreased to approximately 32.1% for the eight months ended 31 August 2019, which was mainly due to (i) the increase in proportion of revenue generated from the sale of traditional toys to our PRC customers among our total sales of traditional toys, which represented approximately 30.3%, 37.6%, 65.1% and 91.0% for the year ended 31 December 2016, 2017 and 2018, and for the eight months ended 31 August 2019, respectively, as sales to PRC customers generally generate lower profit margin; and (ii) the decrease in price attributed by discounts offered for bulk purchase.

Smart hardware

In addition, due to the commencement of sale of our smart hardware, we recorded gross profit and gross profit margin for our smart hardware of approximately RMB1.6 million and 25.4%, respectively, during the year ended 31 December 2018. The increase in our gross profit and gross profit margin of our smart hardware from approximately RMB0.6 million and 16.5%, respectively, for the eight months ended 31 August 2018, to approximately RMB0.8 million and 26.9%, respectively, for the eight months ended 31 August 2019, was mainly due to the increase in average selling price of our smart hardware, mainly Bluetooth speakers, for the eight months ended 31 August 2019.

By brand

	For the year ended 31 December						For the eight months ended			
	2016		2017		2018		2018		2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (*unaudited*)	*%*	*RMB'000*	*%*
"kidztech" brand	29,674	36.9	28,464	35.2	47,429	32.8	23,520	32.2	33,095	32.0
Co-brand	45,789	40.2	38,841	34.0	38,697	34.7	21,935	34.0	38,107	42.7
Overseas customers' brands*(Note)*	9,320	47.3	25,115	39.1	9,481	42.1	5,238	44.3	7,291	41.8
	84,783	39.6	92,420	35.7	95,607	34.3	50,693	33.9	78,493	37.3

Note: Mainly represent overseas customers which engage us on ODM and OEM bases and customers which we sold our products branded under their respective brands.

"Kidztech" brand

As illustrated above, our gross profit generated from our "kidztech" branded products amounted to approximately RMB29.7 million, RMB28.5 million and RMB47.4 million, respectively, for the year ended 31 December 2016, 2017 and 2018 and amounted to approximately RMB23.5 million and RMB33.1 million for the eight months ended 31 August 2018 and 2019, respectively, which was in line with the increase in revenue. The gross profit margin of our "kidztech" branded products amounted to approximately 36.9%, 35.2% and 32.8%, respectively, for the year ended 31 December 2016, 2017 and 2018. Such continuous decrease in gross profit margin was mainly due to (i) the increase in staff costs and depreciation; and (ii) increase in proportion of revenue generated from our sale of "kidztech" branded products to PRC customers among our total sales of "kidztech" branded products which represented approximately 60.2%, 65.0% and 82.4% for the year ended 31 December 2016, 2017 and 2018, respectively, as sales to PRC customers generally generate lower profit margin. The gross profit margin of our "kidztech" branded products remained stable at approximately 32.2% and 32.0% for the eight months ended 31 August 2018 and 2019, respectively.

Co-brand

The gross profit and gross profit margin of our co-branded products decreased from approximately RMB45.8 million and 40.2%, respectively, during the year ended 31 December 2016, to approximately RMB38.8 million and 34.0%, respectively, during the year ended 31 December 2017, mainly due to (i) the increase in staff costs and depreciation; and (ii) the increase in proportion of revenue generated from our sale of co-branded products to PRC customers among our total sales of co-branded products from approximately 6.8% to approximately 24.0% for the year ended 31 December 2016 and 2017, respectively, as sales to PRC customers generally generate lower profit margin. The gross profit and gross profit margin of our co-branded products remained relatively stable at approximately RMB38.8 million and 34.0%, respectively, for the year ended 31 December 2017, and approximately RMB38.7 million and 34.7%, respectively, for the year ended 31 December 2018. The gross profit and gross profit margin of our co-branded products increased from approximately RMB21.9 million and 34.0%, respectively, during the eight months ended 31 August 2018, to approximately RMB38.1 million and 42.7%, respectively, during the eight months ended 31 August 2019, mainly due to (i) the increase in overall sales to our overseas retailer customers, in particular, the sale of our co-branded smart toy vehicles to a company traded under the name of the Renowned Multinational Retailer; and (ii) the appreciation of US dollars against RMB as we usually billed our overseas customers in US dollars.

Overseas customers' brands

The increase in gross profit and the decrease in gross profit margin of overseas customers' branded products for the year ended 31 December 2017 was mainly due to the increase in sale of smart toy vehicles to Dickie in 2017 as mentioned above.

By customer

	For the year ended 31 December						For the eight months ended 31 August			
	2016		2017		2018		2018		2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* *(unaudited)*	*%*	*RMB'000*	*%*
Retailers										
— Overseas retailers	55,143	43.3	42,765	40.5	39,599	40.1	23,178	39.1	35,848	46.3
— PRC retailers	5,035	33.7	5,004	31.5	11,501	29.1	6,781	30.4	7,206	31.8
Sub-total:	60,178	42.3	47,769	39.3	51,100	36.9	29,959	36.7	43,054	43.0
Wholesalers										
— Overseas wholesalers	5,850	42.1	4,543	41.8	5,452	37.9	3,119	37.8	6,596	45.6
— PRC Export-Oriented Wholesalers	9,993	26.4	14,017	25.0	23,966	28.6	10,662	26.6	22,845	29.4
— PRC Domestic-Sale-Oriented Wholesalers	571	29.1	1,794	22.2	5,709	29.5	2,310	27.4	2,631	28.3
Sub-total:	16,414	30.6	20,354	27.2	35,127	29.9	16,091	28.3	32,072	31.6
Overseas ODM and OEM customers	7,850	46.9	24,295	38.7	8,333	40.4	4,578	42.7	3,168	37.9
Others *(Note)*	341	24.9	2	66.7	1,047	46.6	65	41.2	199	44.1
Total	84,783	39.6	92,420	35.7	95,607	34.3	50,693	33.9	78,493	37.3

Note: Others mainly represent companies engaging in various kinds of businesses, including kids-related businesses, which to the best of our Directors' knowledge and belief, purchased our products as ancillary gifts to their customers.

Retailers

As illustrated above, our gross profit from retailer customers amounted to approximately RMB60.2 million, RMB47.8 million, RMB51.1 million and RMB43.1 million, respectively, and our gross profit margin from retailer customers amounted to approximately 42.3%, 39.3%, 36.9% and 43.0%, respectively, during the Track Record Period.

The decrease in our gross profit and gross profit margin from retailer customers from approximately RMB60.2 million and 42.3%, respectively, for the year ended 31 December 2016 to approximately RMB47.8 million and 39.3%, respectively, for the year ended 31 December 2017, was mainly due to (i) the decrease in our sale to overseas retailer customers, in particular, the Renowned Toy Specialty Retailer US and the Renowned Toy Specialty Retailer Netherlands as a result of the Retailer's Liquidation; and (ii) increase in our staff cost and depreciation cost.

The increase in our gross profit from retailer customers from approximately RMB47.8 million for the year ended 31 December 2017 to approximately RMB51.1 million for the year ended 31 December 2018, and the decrease in our gross profit margin from retailer customers from approximately 39.3% for the year ended 31 December 2017 to 36.9% for the year ended 31 December 2018, were mainly due to the increase in sale to PRC retailer customers so as to expand and diversify our customer base by focusing more on PRC based customers. The sales to PRC retailer customers were generally with lower margin of approximately 29.1% for the year ended 31 December 2018.

The increase in our gross profit and gross profit margin from retailer customers from approximately RMB30.0 million and 36.7%, respectively, for the eight months ended 31 August 2018 to approximately RMB43.1 million and 43.0%, respectively, for the eight months ended 31 August 2019, was mainly due to (i) the increase in sale to our overseas retailer customers, in particular, the sale of our co-branded smart toy vehicles to a company traded under the name of the Renowned Multinational Retailer, with relatively higher profit margin; and (ii) the appreciation of US dollars against RMB as we usually billed our overseas customers in US dollars.

Wholesalers

Our gross profit from wholesaler customers amounted to approximately RMB16.4 million, RMB20.4 million, RMB35.1 million and RMB32.1 million, respectively, during the Track Record Period, which was in line with our increase in revenue during the same year/period. Our gross profit margin from wholesaler customers amounted to approximately 30.6%, 27.2%, 29.9% and 31.6%, respectively, during the Track Record Period. The decrease in gross profit margin from wholesaler customers from approximately 30.6% for the year ended 31 December 2016 to approximately 27.2% for the year ended 31 December 2017, was mainly due to (i) the increase in staff costs and depreciation in 2017 as we expanded our production capacity; and (ii) the increase in sale to one of our PRC Domestic-Sale-Oriented Wholesalers in Shandong, the PRC, with relatively lower profit margin as we expanded our market in the eastern region of the PRC.

Our gross profit margin from wholesaler customers increased from approximately 27.2% for the year ended 31 December 2017 to approximately 29.9% for the year ended 31 December 2018, mainly due to the increase in sale to PRC Export-Oriented Wholesalers and PRC Domestic-Sale-Oriented Wholesalers in 2018 so as to expand and diversify our customer base by focusing more on PRC based customers. Such sales had higher profit margin in 2018 as compared to that in 2017 mainly due to the sale of our new smart toy vehicles in second half of 2018 onwards to PRC Export-Oriented Wholesalers which had relatively higher profit margin, such new smart toy vehicles include rock crawler toy cars, stunt toy cars which perform flips and 360 degrees spins, and racing toy cars.

The increase in our gross profit margin from wholesaler customers from approximately 28.3% for the eight months ended 31 August 2018 to approximately 31.6% for the eight months ended 31 August 2019, was mainly due to (i) the increase in sale to overseas wholesalers for the eight months ended 31 August 2019 with relatively higher profit margin; (ii) the appreciation of US dollars against RMB as we usually billed our overseas wholesalers in US dollars; and (iii) the sale of our new smart toy vehicles in second half of 2018 onwards to PRC Export-Oriented Wholesalers which could earn relatively higher profit margin as explained above.

According to the CIC Report, most of the world's toys are produced in the PRC resulting in the fierce competition in the toy industry in the region. As a result, PRC customers are more sensitive to prices than overseas customers, especially for high-end products with higher prices. Therefore, the overall gross profit margins for our sales to PRC retailer and wholesaler customers were lower than that of our sales to overseas retailer and wholesaler customers, respectively.

Overseas ODM and OEM customers

The increase in our gross profit from overseas ODM and OEM customers from approximately RMB7.9 million for the year ended 31 December 2016 to approximately RMB24.3 million for the year ended 31 December 2018, and the decrease in our gross profit margin from overseas ODM and OEM customers from approximately 46.9% for the year ended 31 December 2016 to 38.7% for the year ended 31 December 2017, were mainly due to the increase in sale of smart toy vehicles in 2017 to Dickie, which engaged us to manufacture a kind of smart toy vehicle featuring certain characters of a motion picture related to cars which was particularly popular in 2017. Such sale had a relatively lower profit margin.

The decrease in our gross profit and gross profit margin from overseas ODM and OEM customers from approximately RMB4.6 million and 42.7%, respectively, for the eight months ended 31 August 2018 to approximately RMB3.2 million and 37.9%, respectively, for the eight months ended 31 August 2019, was mainly due to the decrease in sale to Dickie for the eight months ended 31 August 2019.

Overall

Our gross profit increased from approximately RMB84.8 million for the year ended 31 December 2016 to approximately RMB92.4 million for the year ended 31 December 2017, representing an increase of approximately 9.0%. Our gross profit margin decreased from approximately 39.6% for the year ended 31 December 2016 to approximately 35.7% for the year ended 31 December 2017. The decrease was mainly attributable to (i) the increase in purchases of moulds and machinery resulting in the increase in additional depreciation expenses; (ii) the decrease in gross profit margin of retailer customers mainly due to the decrease in our sale to the Renowned Toy Specialty Retailer US and the Renowned Toy Specialty Retailer Netherlands as a result of the Retailer's Liquidation; and (iii) the increase in proportion of sale of our products to PRC customers in 2017 with lower profit margin.

Our gross profit increased from approximately RMB92.4 million for the year ended 31 December 2017 to approximately RMB95.6 million for the year ended 31 December 2018, representing an increase of approximately 3.5%. Our gross profit margin slightly decreased from approximately 35.7% for the year ended 31 December 2017 to approximately 34.3% for the year ended 31 December 2018, the decrease was mainly attributable to (i) the decrease in gross profit margin of retailer customers mainly due to the decrease in our sale to the Renowned Toy Specialty Retailer US and the Renowned Toy Specialty Retailer Netherlands as a result of the Retailer's Liquidation; and (ii) the increase in proportion of sale of our products to our PRC customers including PRC Export-Oriented Wholesalers and PRC Domestic-Oriented Wholesalers in 2018 with lower profit margin so as to expand and diversify our customer base by focusing more on PRC based customers.

Our gross profit increased from approximately RMB50.7 million for the eight months ended 31 August 2018 to approximately RMB78.5 million for the eight months ended 31 August 2019, representing an increase of approximately 54.8%. Our gross profit margin increased from approximately 33.9% for the eight months ended 31 August 2018 to approximately 37.3% for the eight months ended 31 August 2019. The increase in our gross profit margin was primarily due to (i) the appreciation of US dollars against RMB as we usually billed our overseas customers in US dollars; (ii) increase in overall sales to overseas retailer customers and overseas wholesaler customers with higher profit margin; and (iii) the increase in gross profit margin of our sale to PRC Export-Oriented Wholesalers for the eight months ended 31 August 2019 as the sale of our new smart toy vehicles in second half of 2018 to PRC Export-Oriented Wholesalers which could earn relatively higher profit margin.

Other income

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Government grants	162	4,242	2,522	1,767	2,385
Rental income	—	—	724	483	464
Compensation in relation to breach of contract	—	5,215	—	—	—
Others *(Note)*	286	1,176	2,413	—	203
	448	10,633	5,659	2,250	3,052

Note: Others mainly include the income from sale of raw materials.

Other income mainly represents (i) government grants, which mainly comprised subsidies for the costs incurred for listing on NEEQ and research and development expenses incurred by our Group; (ii) rental income derived from lease of a land use right regarding a piece of land with a total gross floor area of approximately 18,100 sq.m. in Chenghai, Shantou (the "**Yudilong Land**"); and (iii) compensation in relation to breach of contract. Compensation in relation to breach of contract was related to a contract which was entered into between our Group and a vendor, an Independent Third Party, in November 2016 pursuant to which our Group agreed to purchase from the vendor certain parcel of land and factory located in Shantou, the PRC at a consideration of RMB58.0 million. Due to difficulties encountered by both parties to the contract regarding the registration of transfer of the subject property as a result of the PRC government's land resumption project, the parties entered into a termination agreement in July 2017 to terminate such contract. Accordingly, the vendor paid RMB5.2 million as the compensation for breach of contract. During the Track Record Period, our other income amounted to approximately RMB0.4 million, RMB10.6 million, RMB5.7 million and RMB3.1 million, respectively.

Our other income increased from approximately RMB0.4 million for the year ended 31 December 2016 to approximately RMB10.6 million for the year ended 31 December 2017, representing an increase by approximately 2,273.4%. The increase was mainly attributable to the increase in government grants by approximately RMB4.1 million, which were mainly subsidies for (i) the costs incurred for our listing on NEEQ; (ii) research and development expenses for product design and development; and (iii) compensation in relation to the abovementioned breach of contract amounted to approximately RMB5.2 million in 2017.

Our other income decreased from approximately RMB10.6 million for the year ended 31 December 2017 to approximately RMB5.7 million for the year ended 31 December 2018, representing a decrease of approximately 46.8%. The decrease was mainly attributable to (i) the decrease in government grants of approximately RMB1.7 million; and (ii) the absence of compensation in relation to breach of contract in 2018 which was a one-off transaction in 2017, partially offset by (a) the increase in income from sale of raw materials from 2017 to 2018; and (b) the increase in rental income derived from the lease of a land use right. Please refer to the sub-paragraph headed "Acquisition of Shantou Yudilong in 2017 and 2018" under the paragraph headed "Acquisition of Shantou Yudilong during the Track Record Period and subsequent disposal after the Track Record Period" under the section headed "History, Reorganisation and corporate structure" in this prospectus for further details regarding the acquisition of Shantou Yudilong.

Our other income increased from approximately RMB2.3 million for the eight months ended 31 August 2018 to approximately RMB3.1 million for the eight months ended 31 August 2019, representing an increase of approximately 35.6%. The increase in our other income was primarily due to the increase in government grants by approximately RMB0.6 million, mainly for the subsidies for our smart toys production, for the eight months ended 31 August 2019.

Other gains/(losses) — net

	Year ended 31 December			Eight months ended 31 August	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Exchange gains/(losses)	805	138	(463)	(533)	72
Gains on disposal of a subsidiary	—	—	—	—	4,804
Others	—	—	—	—	(231)
	805	138	(463)	(533)	4,645

Other gains/(losses), net mainly represents (i) exchange gains or losses; and (ii) gains on disposals of Shantou Yudilong. During the Track Record Period, our other gains/(losses), net recorded a gain of approximately RMB0.8 million, RMB0.1 million, a loss of approximately RMB0.5 million and a gain of approximately RMB4.6 million, respectively.

Our other gains, net decreased from approximately RMB0.8 million for the year ended 31 December 2016 to approximately RMB0.1 million for the year ended 31 December 2017, representing a decrease of approximately 82.9%. The decrease was mainly attributable to the decrease in exchange gains by approximately RMB0.7 million in 2017.

Our other gains/(losses), net decreased from a gain of approximately RMB0.1 million for the year ended 31 December 2017 to a loss of approximately RMB0.5 million for the year ended 31 December 2018. The decrease was mainly attributable to the exchange losses of approximately RMB0.5 million for the year ended 31 December 2018.

We recorded other losses, net of approximately RMB0.5 million for the eight months ended 31 August 2018 due to exchange losses of approximately RMB0.5 million. We recorded other gains, net of approximately RMB4.6 million for the eight months ended 31 August 2019 primarily due to gains on disposals of Shantou Yudilong of approximately RMB4.8 million during the eight months ended 31 August 2019. Please refer to the sub-paragraph headed "Disposal of Shantou Yudilong in 2019" under the paragraph headed "Acquisition of Shantou Yudilong during the Track Record Period and subsequent disposal after the Track Record Period" under the section headed "History, Reorganisation and corporate structure" in this prospectus for further details regarding the disposal of Shantou Yudilong.

Selling expenses

Selling expenses primarily included (i) freight charges and transportation expenses relating to delivery of our products to our customers; (ii) customs fees paid for exporting our products; (iii) testing and inspection fees of our products for customers who have specific product quality standard requirements; (iv) staff costs of our sales and marketing department; and (v) exhibition and promotion expenses incurred in relation to our participation in international toy fairs and exhibitions. A breakdown of our selling expenses during the Track Record Period is as follows:

	Year ended 31 December						Eight months ended 31 August			
	2016		2017		2018		2018		2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* *(unaudited)*	*%*	*RMB'000*	*%*
Freight charges and transportation expenses	3,492	20.7	4,869	30.3	5,223	31.5	2,528	23.0	3,173	23.9
Customs fees	4,846	28.8	3,891	24.2	3,416	20.6	2,197	20.0	3,201	24.1
Testing and inspection fees	2,040	12.1	2,051	12.8	2,996	18.0	2,504	22.8	2,046	15.4
Staff costs	1,858	11.0	2,659	16.6	2,574	15.5	2,093	19.0	2,545	19.1
Exhibition and promotion expenses	975	5.8	517	3.2	404	2.4	245	2.2	228	1.7
Others *(Note)*	3,639	21.6	2,059	12.9	1,994	12.0	1,429	13.0	2,109	15.8
Total	16,850	100.0	16,046	100.0	16,607	100.0	10,996	100.0	13,302	100.0

Note: Others mainly include office supplies and expenses incurred in relation to our sale to some of our retailer customers, such as slotting fee.

During the Track Record Period, our selling expenses amounted to approximately RMB16.9 million, RMB16.0 million, RMB16.6 million and RMB13.3 million, respectively. Our selling expenses accounted for approximately 7.9%, 6.2%, 6.0% and 6.3% of our total revenue during the respective periods.

Our selling expenses decreased by approximately 4.8% from approximately RMB16.9 million for the year ended 31 December 2016 to approximately RMB16.0 million for the year ended 31 December 2017. Such decrease was primarily attributable to the decrease in customs fees by approximately RMB1.0 million in 2017 and other cost by approximately RMB1.6 million due to decrease in our overseas sales, partially offset by the increase in freight charges and transportation expenses by approximately RMB1.4 million and staff costs by approximately RMB0.8 million due to the growth of our sales in 2017.

Our selling expenses increased by approximately 3.5% from approximately RMB16.0 million for the year ended 31 December 2017 to approximately RMB16.6 million for the year ended 31 December 2018. Such increase was primarily due to the increase in testing and inspection fees by approximately RMB0.9 million due to the new product launch and increase in sales in 2018, partially offset by decrease in customs fees by approximately RMB0.5 million due to decrease in overall sales to overseas retailer customers in 2018.

Our selling expenses increased by approximately 21.0% from approximately RMB11.0 million for the eight months ended 31 August 2018 to approximately RMB13.3 million for the eight months ended 31 August 2019. The increase was primarily due to (i) the increase in freight charges and transportation expenses of approximately RMB0.6 million due to the increase in sales during the eight months ended 31 August 2019; (ii) the increase in staff costs of approximately RMB0.5 million due to increase in number of staff and staff remuneration; and (iii) the increase in customs fee due to the increase in sale of our products to our overseas retailer customers.

Administrative expenses

Our administrative expenses mainly consisted of (i) staff costs relating to management and administrative personnel; (ii) depreciation and amortisation expenses; (iii) research and development expenses in relation to testing and inspection fees incurred during our product research and development process; (iv) legal and professional fees; and (v) expenses relating to short term leases.

The following table sets forth a breakdown of our administrative expenses for the years/periods indicated:

	Year ended 31 December						Eight months ended 31 August			
	2016		2017		2018		2018		2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* *(unaudited)*	*%*	*RMB'000*	*%*
Staff costs	9,486	34.9	10,459	31.3	10,425	31.1	6,140	29.0	6,154	20.8
Depreciation and amortisation expenses	2,432	9.0	4,225	12.7	5,777	17.2	3,727	17.6	4,035	13.6
Research and development expenses	8,595	31.6	9,126	27.3	10,149	30.2	5,408	25.5	6,151	20.7
Legal and professional fees	1,838	6.8	2,899	8.7	2,674	8.0	2,481	11.7	686	2.3
Listing expenses	—	—	—	—	—	—	—	—	8,578	28.9
Expenses relating to short term leases	1,571	5.8	1,037	3.1	76	0.2	48	0.2	42	0.1
Others *(Note)*	3,243	11.9	5,633	16.9	4,466	13.3	3,379	16.0	4,010	13.6
Total	**27,165**	**100.0**	**33,379**	**100.0**	**33,567**	**100.0**	**21,183**	**100.0**	**29,656**	**100.0**

Note: Others mainly include office supplies and business and other taxes.

During the Track Record Period, our administrative expenses amounted to approximately RMB27.2 million, RMB33.4 million, RMB33.6 million and RMB29.7 million, respectively, which accounted for approximately 12.7%, 12.9%, 12.0% and 14.1% of our total revenue during the respective periods.

Administrative expenses increased by approximately 22.9% to approximately RMB33.4 million for the year ended 31 December 2017 from approximately RMB27.2 million for the year ended 31 December 2016, primarily due to (i) the increase in staff costs by approximately RMB1.0 million as a result of increase in number of staff in 2017; (ii) the increase in depreciation and amortisation expenses by approximately RMB1.8 million mainly derived from the increase in property, plant and equipment for renting the new office in Hong Kong and new office purchased in Shenzhen; and (iii) the settlement in relation to a lawsuit in 2017 as mentioned above.

Our administrative expenses remained relatively stable for the year ended 31 December 2017 and 2018, amounted to approximately RMB33.4 million and RMB33.6 million, respectively.

Our administrative expenses increased by approximately 40.0% from approximately RMB21.2 million for the eight months ended 31 August 2018 to approximately RMB29.7 million for the eight months ended 31 August 2019. Such increase was mainly attributable to incurrence of listing expenses of approximately RMB8.6 million during the eight months ended 31 August 2019 for the preparation of Listing.

Legal and professional fees for the year ended 31 December 2016 and 2018 mainly included (i) legal and professional fees incurred in relation to our listing on NEEQ; and (ii) legal and professional fees for the proposed listing of Kidztech Intelligent on the ChiNext market of the Shenzhen Stock Exchange (深圳證券交易所創業板), respectively. Legal and professional fees for the year ended 31 December 2017 mainly included lawsuit settlement expenses, which represented our one-off lump sum settlement of US$137,500 to an Independent Third Party regarding an alleged trademark infringement in the U.S.. During the Track Record Period, an Independent Third Party filed the IP Infringement Lawsuit against us in the United States District Court for the Eastern District of Texas alleging infringement of certain trademarks that they own, unfair competition, trademark dilution and unjust enrichment under federal and Texas law arising from our sale, distribution, and advertising of radio-controlled vehicles under certain accused marks. Please refer to the paragraph headed "Intellectual property rights" under the section headed "Business" in this prospectus for further details relating to the IP Infringement Lawsuit. We entered into a settlement agreement with such Independent Third Party to resolve the IP Infringement Lawsuit, whereby, among others, we paid such Independent Third Party an one-off lump sum settlement of US$137,500.

Net impairment reversed/(losses) on financial assets

During the Track Record Period, our net impairment reversed/(losses) on financial assets represented the provision for impairment or write off of accounts receivables. We recorded net impairment gains of approximately RMB0.3 million for the year ended 31 December 2016. We recorded net impairment losses of approximately RMB6.8 million, RMB1.3 million and RMB1.0 million for the year ended 31 December 2017, 2018 and for the eight months ended 31 August 2019, respectively. Our net impairment losses on financial assets for the year ended 31 December 2017 mainly represented our provision made for doubtful amount receivables from two of our customers, namely the Renowned Toy Specialty Retailer US and the Renowned Toy Specialty Retailer Netherlands. Approximately RMB4.4 million was written-off in 2018 due to the Retailer's Liquidation.

Our net impairment losses on financial assets increased to approximately RMB6.8 million for the year ended 31 December 2017 from a gain of approximately RMB0.3 million for the year ended 31 December 2016, which was mainly due to the increase in provision made for bad debt as a result of the Retailer's Liquidation in 2017 as mentioned above.

Our net impairment losses on financial assets decreased to approximately RMB1.3 million for the year ended 31 December 2018 from approximately RMB6.8 million for the year ended 31 December 2017, which was mainly due to the decrease in provision made for bad debt from the Renowned Toy Specialty Retailer US and the Renowned Toy Specialty Retailer Netherlands, which was one-off and non-recurring in 2017.

Our net impairment losses on financial assets decreased by approximately 67.4% from approximately RMB3.2 million for the eight months ended 31 August 2018 to approximately RMB1.0 million for the eight months ended 31 August 2019. Such decrease was primarily due to the decrease in provision attributable to the decrease in trade receivables as at 31 August 2019.

Finance costs, net

Our finance cost, net principally represents interest expenses on bank and other borrowings net of interest income on bank deposits. Our bank borrowings are mainly for the use of working capital. For details of our bank borrowings, please refer to the paragraph headed "Indebtedness" below. Our finance costs, net amounted to approximately RMB3.6 million, RMB4.7 million, RMB7.7 million and RMB5.2 million, respectively, during the Track Record Period.

Our finance costs, net increased by approximately RMB1.1 million, or approximately 29.1%, from approximately RMB3.6 million for the year ended 31 December 2016 to approximately RMB4.7 million for the year ended 31 December 2017, mainly due to the increase in interest expenses on bank borrowings and interest expenses on other borrowings from approximately RMB2.3 million in aggregate to approximately RMB4.0 million in aggregate from 2016 to 2017 as a result of the increase in the level of bank and other borrowings in 2017.

Our finance costs, net increased by approximately RMB3.0 million, or approximately 64.5%, from approximately RMB4.7 million for the year ended 31 December 2017 to approximately RMB7.7 million for the year ended 31 December 2018, mainly due to the increase in interest expenses on bank borrowings and interest expenses on other borrowings from approximately RMB4.0 million in aggregate to approximately RMB7.1 million in aggregate from 2017 to 2018 as a result of the increase in the level of bank and other borrowings in 2018.

Our finance costs, net increased slightly from approximately RMB4.5 million for the eight months ended 31 August 2018 to approximately RMB5.2 million for the eight months ended 31 August 2019, representing an increase by 17.1%. Such increase was mainly attributable to the increase in interest expenses on bank borrowings and interest expenses on other borrowings from approximately RMB4.1 million in aggregate for the eight months ended 31 August 2018 to approximately RMB5.6 million in aggregate for the eight months ended 31 August 2019 as a result of the increase in bank and other borrowings.

Income tax expense

The following table sets out a breakdown of our income tax expense for the years/periods indicated:

	Year ended 31 December			Eight months ended 31 August	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Current income tax					
— PRC enterprise income tax	3,716	5,939	7,739	1,150	7,461
— Hong Kong profit tax	2,278	2,611	1,091	945	2,126
Deferred income tax	(775)	(2,403)	(6)	(787)	(370)
	5,219	6,147	8,824	1,308	9,217

Our effective tax rate for the three years ended 31 December 2018 and the eight months ended 31 August 2019 was approximately 13.5%, 14.6%, 21.2% and 24.9%, respectively.

Income tax expense increased by approximately 17.8% to approximately RMB6.1 million for the year ended 31 December 2017 from approximately RMB5.2 million for the year ended 31 December 2016. Such increase was in line with the increase in profit before tax between 2016 and 2017. Our effective tax rate for the same period has increased slightly from approximately 13.5% for the year ended 31 December 2016 to approximately 14.6% for the year ended 31 December 2017, which was mainly due to the increase in expenses incurred in relation to the IP Infringement Lawsuit not deductible for tax purpose. Please refer to the paragraph headed "Intellectual property rights" under the section headed "Business" in this prospectus for further details regarding the IP Infringement Lawsuit.

Income tax expense increased by approximately 43.5% to approximately RMB8.8 million for the year ended 31 December 2018 from approximately RMB6.1 million for the year ended 31 December 2017. Our effective tax rate for the same period increased from approximately 14.6% for the year ended 31 December 2017 to approximately 21.2% for the year ended 31 December 2018, which was mainly due to the tax on intra-group dividend income where Kidztech HK declared a dividend of RMB34.0 million to Kidztech Intelligent in 2018. Such dividend was subject to PRC enterprise income tax according to the relevant tax law.

Income tax expenses increased by approximately 604.7% to approximately RMB9.2 million for the eight months ended 31 August 2019 from approximately RMB1.3 million for the eight months ended 31 August 2018. Our effective tax rate for the same period increased from approximately 10.4% for the eight months ended 31 August 2018 to approximately 24.9% for the eight months ended 31 August 2019, which was mainly due to (i) the increase in expenses of approximately RMB8.6 million incurred in relation to the preparation for our Listing which was not deductible for tax purpose; and (ii) the increase in the applicable enterprise income tax rate of Kidztech Intelligent from 15% for the year ended 31 December 2018 to 25% for the eight months ended 31 August 2019. The effective tax rate for the eight months ended 31 August 2018 was relatively lower during the Track Record Period, mainly because the additional tax deduction of research and development expenses incurred during the eight months ended 31 August 2018 remained similar to that of other periods during the Track Record Period, while the profit before income tax earned for the eight months ended 31 August 2018 was relatively lower.

PRC Enterprise Income Tax ("EIT")

Our subsidiaries in the PRC are subject to EIT in the PRC. The EIT has been generally provided at the applicable enterprise income tax rate of 25% on the estimated assessable profits of the PRC companies in our Group (save as Kidztech Intelligent up to 31 December 2019) during the Track Record Period. As Kidztech Intelligent was recognised as High and New Technology Enterprise in 2016 for a period of three years, the applicable enterprise income tax rate for Kidztech Intelligent was 15% for the three years ended 31 December 2018. The High and New Technology Enterprise Certificate of Kidztech Intelligent was issued on 9 December 2016 with a validity of three years. The High and New Technology Enterprise Certificate had expired and Kidztech Intelligent was in the process of renewing its High and New Technology Enterprise Certificate as at the Latest Practicable Date. During the renewal process, Kidztech Intelligent has continued to pay provisional tax on a quarterly basis at tax rate of 15%. In December 2019, our Directors noted that the relevant PRC authority published a proposed list of enterprises which could be accredited as High and New Technology Enterprises in Guangdong Province, the PRC, and Kidztech Intelligent was not included in such proposed list. As the proposed list is preliminary and is not final, we have lodged an appeal with an expectation to obtaining positive feedback from the tax authority as at the Latest Practicable Date. As at the Latest Practicable Date, we have not yet received any feedback from the relevant authority. If Kidztech Intelligent is not able to obtain the High and New Technology Enterprise Certificate for 2019 to 2021, it would need to pay back the shortfall at the applicable tax rate of 25% in the annual tax filing in May 2020. The applicable tax rate adopted by Kidztech Intelligent for the eight months ended 31 August 2019 was 25%, being the enterprise income tax rate for domestic enterprises.

Pursuant to the EIT Law, the expenses of an enterprise for the research and development of new technologies, new products and new process may be additionally calculated and deducted when calculating the taxable amount of incomes. Pursuant to which, during the period from 1 January 2018 to 31 December 2020, if research and development expenses already incurred have not been included in the gains and losses as intangible assets, an additional 75% of the amount of research and development expenses already incurred during the year shall be deducted from the amount of taxable income in the same year; whereas if intangible assets have been formed, they shall be amortised at 175% of the cost of the intangible assets during the same period. Accordingly, our Group is eligible to enjoy an additional 75% deductible allowance. During the Track Record Period, our Group's additional deduction on research and development expenses amounted to approximately RMB0.5 million, RMB0.5 million, RMB0.9 million and RMB0.9 million, respectively.

Hong Kong profits tax

The provision for Hong Kong profits tax during the Track Record Period is calculated at 16.5% of the estimated assessable profits of our subsidiaries in Hong Kong during the Track Record Period. Kidztech HK, our operating subsidiary incorporated in Hong Kong, is subject to income tax at the rate of 16.5% on the assessable profits arising in Hong Kong during the Track Record Period. For the year ended 31 December 2018, we are eligible to nominate Kidztech HK to be chargeable at the two-tier profit tax rates, whereby profits tax will be chargeable on the first HK$2.0 million of assessable profits at 8.25% and assessable profits above such threshold at a rate of 16.5%.

Cayman Islands and BVI income tax

Currently, we are not subject to Cayman Islands and BVI income tax.

During the Track Record Period and up to the Latest Practicable Date, we had paid all relevant taxes when due and there are no matters in dispute or unresolved with the relevant tax authorities.

Profit for the year/period

As a result of the foregoing reasons, our profit increased by approximately 7.9% to approximately RMB36.1 million for the year ended 31 December 2017 from approximately RMB33.4 million for the year ended 31 December 2016. However, given that there was a decrease in gross profit margin between 2016 and 2017 as mentioned above, our net profit margin slightly decreased from approximately 15.6% in 2016 to approximately 13.9% in 2017.

As a result of the foregoing reasons, our profit decreased by approximately 9.2% from approximately RMB36.1 million for the year ended 31 December 2017 to approximately RMB32.8 million for the year ended 31 December 2018. Our net profit margin decreased from approximately 13.9% for the year ended 31 December 2017 to approximately 11.8% for the year ended 31 December 2018, due to (i) the overall decrease in gross profit margin as mentioned above; and (ii) the increase in income tax expenses mainly attributable from the tax on dividend income as mentioned above.

As a result of the foregoing reasons, our profit increased by approximately 146.1% from approximately RMB11.3 million for the eight months ended 31 August 2018 to approximately RMB27.8 million for the eight months ended 31 August 2019. Our net profit margin increased from approximately 7.5% for the eight months ended 31 August 2018 to approximately 13.2% for the eight months ended 31 August 2019, which was primarily due to (i) the increase in our gross profit for the eight months ended 31 August 2019; (ii) the decrease in net impairment loss on financial assets; and (iii) the increase in other income and other gains for the eight months ended 31 August 2019.

NON-HKFRS MEASURES

In order to supplement our combined statements of profit or loss, which are presented in accordance with HKFRS, we also use adjusted net profit as an additional financial measure, which is not required by, or presented in accordance with HKFRS. We believe that these non-HKFRS measures help identify underlying trends in our business that could otherwise be distorted by the effect of the expenses that we include in income from operations and net profit, and therefore provide useful information to investors and others in understanding and evaluating our results of operation by eliminating potential impacts of items that our management does not consider to be indicative of our operating performance, which is in the same manner as the action of our management when comparing financial results across accounting periods. We also believe that these non-HKFRS measures provide useful information about our operating results, enhance the overall understanding of our past performance and future prospects, and allow for greater visibility with respect to key metrics used by our management in its financial and operational decision-making.

We define adjusted net profit as profit for the year/period adjusted by listing expenses, compensation in relation to breach of contract regarding acquisition of land and factory and gains on disposal of a subsidiary, net of their respective tax effects. The use of adjusted net profit has material limitations as an analytical tool because they do not reflect all items of income and expenses that affect our operations. When assessing our operating and financial performance, you should not consider adjusted net profit in isolation from or as a substitute for our profit or loss for the year/period, gross profit or any other financial performance measure that is calculated in accordance with HKFRS. The terms adjusted net profit are not defined under HKFRS, and such terms may not be comparable to other similarly titled measures used by other companies.

Reconciliation

The following tables set out the reconciliations of our non-HKFRS financial measures, net of tax effects on the adjustments, for the periods indicated, to the nearest measures prepared in accordance with HKFRS:

	For the year ended 31 December			For the eight months ended 31 August	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Profit for the year/period	33,445	36,087	32,753	11,274	27,750
Add:					
Listing expenses *(Note 1)*	—	—	—	—	8,578
Less:					
Compensation in relation to breach of contract regarding acquisition of land and factory *(Note 2)*	—	(5,215)	—	—	—
Gains on disposal of a subsidiary *(Note 3)*	—	—	—	—	(4,804)
Net of tax effect *(Note 4)*	—	782	—	—	1,201
Adjusted net profit	**33,445**	**31,654**	**32,753**	**11,274**	**32,725**

Notes:

1. Our expenses incurred for Listing is non-recurring as it is derived from a one-off event.

2. Compensation in relation to breach of contract regarding acquisition of land and factory is non-recurring as it is derived from a one-off event.

3. Disposal of a subsidiary is a one-off event and such gain is non-recurring in nature.

4. Included tax effects on listing expenses which is non-recurring in nature.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

Our primary uses of cash are for our operations, repayment of bank borrowings, and payment of royalties under the licensing agreements for our co-branded products, and have been funded through a combination of equity capital, cash generated from our operations and bank borrowings. We currently expect that there will not be any material change in the sources and uses of cash of our Group in the future, except that we would have additional funds from proceeds of the Global Offering for implementing our future plans as detailed under the section headed "Future plans and use of proceeds" in this prospectus.

The following table summarises our consolidated cash flow statements for the years/periods indicated:

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Operating cash flows before movement in working capital	55,342	74,876	72,631	34,742	55,731
Change in working capital	23,404	(41,656)	(13,465)	(96,102)	(19,880)
Income tax paid	(6,386)	(7,082)	(8,115)	(5,334)	(3,483)
Net cash generated from/(used in) operating activities	72,360	26,138	51,051	(66,694)	32,368
Net cash (used in)/generated from investing activities	(84,098)	(78,079)	(61,329)	(69,399)	2,199
Net cash generated from/(used in) financing activities	14,514	182,275	38,278	44,741	(114,191)
Net increase/(decrease) in cash and cash equivalents	2,776	130,334	28,000	(91,352)	(79,624)
Cash and cash equivalents at beginning of the period	27,942	31,096	159,156	159,156	188,634
Exchange differences on cash and cash equivalents	378	(2,274)	1,478	(199)	738
Cash and cash equivalents at end of the period	31,096	159,156	188,634	67,605	109,748

Net cash generated from/(used in) operating activities

During our Track Record Period, our cash inflow from operating activities was principally from the sale of our toy products. Our cash outflow used in operating activities was principally for purchases of raw materials and payments for licence fee, staff costs and other operating expenses.

Net cash generated from operating activities amounted to approximately RMB72.4 million for the year ended 31 December 2016, was a combined result of approximately RMB78.7 million of cash generated from operations and income tax paid of approximately RMB6.4 million. The changes in our cash generated from operating activities were primarily attributable to (i) our operating cash flow before change in working capital amounted to RMB55.3 million; (ii) decrease in license fee payables of approximately RMB3.5 million; (iii) a decrease in trade receivables of approximately RMB1.9 million; and (iv) an increase in trade and other payables of approximately RMB24.7 million.

Net cash generated from operating activities amounted to approximately RMB26.1 million for the year ended 31 December 2017, was a combined result of approximately RMB33.2 million of cash generated from operations and income tax paid of approximately RMB7.1 million. The changes in our cash generated from operating activities were primarily attributable to (i) our operating cash flow before change in working capital amounted to RMB74.9 million; (ii) decrease in license fee payables of approximately RMB3.9 million; (iii) an increase in inventory of approximately RMB10.0

million; (iv) an increase in trade receivables of approximately RMB34.0 million; (v) a decrease in prepayments and other receivables of approximately RMB19.3 million; and (vi) a decrease in trade and other payables of approximately RMB16.4 million.

Net cash generated from operating activities amounted to approximately RMB51.1 million for the year ended 31 December 2018, was a combined result of approximately RMB59.2 million of cash generated from operations and income tax paid of approximately RMB8.1 million. The changes in our cash generated from operating activities were primarily attributable to (i) our operating cash flow before change in working capital amounted to RMB72.6 million; (ii) decrease in license fee payables of approximately RMB3.5 million; (iii) an increase in trade receivables of approximately RMB28.0 million; and (iv) an increase in trade and other payables of approximately RMB17.0 million.

Net cash used in operating activities amounted to approximately RMB66.7 million for the eight months ended 31 August 2018, was a combined result of approximately RMB61.4 million of cash used in operations and income tax paid of approximately RMB5.3 million. The cash used in the operations was primarily attributable to (i) relatively lower amount of profit before income tax of approximately RMB12.6 million; (ii) increase in inventory of approximately RMB31.7 million mainly due to the increase in raw materials for sales during our peak season between June and December of the year; (iii) increase in trade receivables of approximately RMB49.2 million for the eight months ended 31 August 2018 due to the same reason as increase in inventory as mentioned; and (iv) an increase in prepayments and other receivables of approximately RMB21.6 million.

Net cash generated from operating activities amounted to approximately RMB32.4 million for the eight months ended 31 August 2019, was a combined result of approximately RMB35.9 million of cash generated from operations and approximately RMB3.5 million of income tax paid. The changes in our cash generated from operating activities were primarily attributable to (i) our operating cash flow before change in working capital amounted to RMB55.7 million; (ii) decrease in license fee payables of approximately RMB4.8 million; (iii) increase in inventory of approximately RMB10.4 million; (iv) increase in trade receivables of approximately RMB5.4 million; (v) increase in prepayments and other receivables of approximately RMB11.5 million; and (vi) increase in trade and other payables of approximately RMB11.3 million. Our net cash used in operating activities of approximately RMB66.7 million for the eight months ended 31 August 2018 increased by approximately RMB99.1 million to net cash generated from operating activities of approximately RMB32.4 million for the eight months ended 31 August 2019, mainly due to our Group's enhancement of credit control in 2019.

Net cash (used in)/generated from investing activities

For the year ended 31 December 2016, our Group had net cash used in investing activities of approximately RMB84.1 million, which was mainly attributable to purchases of property, plant and equipment of approximately RMB84.2 million which was primarily attributable to the payment of 90% of the total consideration for the purchase of the parcel of land and factory located in Shantou, the PRC.

For the year ended 31 December 2017, our Group had net cash used in investing activities of approximately RMB78.1 million, which was mainly attributable to purchases of property, plant and equipment of approximately RMB77.2 million.

For the year ended 31 December 2018, our Group had net cash used in investing activities of approximately RMB61.3 million, which was mainly attributable to purchases of property, plant and equipment of approximately RMB60.7 million.

For the eight months ended 31 August 2018, our Group had net cash used in investing activities of approximately RMB69.4 million, which was mainly attributable to purchase of property, plant and equipment of approximately RMB68.4 million.

For the eight months ended 31 August 2019, our Group had net cash generated from investing activities of approximately RMB2.2 million, which was mainly attributable to (i) proceeds from disposal of a then subsidiary, namely Shantou Yudilong, of approximately RMB5.0 million; and (ii) the interest received of approximately RMB0.9 million, and was partially offset by purchase of property, plant and equipment of approximately RMB3.7 million.

Net cash generated from/(used in) financing activities

For the year ended 31 December 2016, our Group had net cash generated from financing activities of approximately RMB14.5 million, which was primarily attributable to proceeds from borrowings of approximately RMB49.1 million, and was partially offset by repayments of borrowings of approximately RMB29.7 million.

For the year ended 31 December 2017, our Group had net cash generated from financing activities of approximately RMB182.3 million, which was primarily attributable to (i) capital contribution from the then shareholders of a subsidiary of approximately RMB156.0 million due to the fund raising from placement of shares in NEEQ; and (ii) proceeds from borrowings of approximately RMB125.3 million, and was partially offset by repayments of borrowings of approximately RMB84.3 million.

For the year ended 31 December 2018, our Group had net cash generated from financing activities of approximately RMB38.3 million, which was primarily attributable to proceeds from borrowings of approximately RMB124.0 million, and was partially offset by repayments of borrowings of approximately RMB73.9 million.

For the eight months ended 31 August 2018, our Group had net cash generated from financing activities of approximately RMB44.7 million, which was primarily attributable to proceeds from borrowings of RMB104.0 million, and was partially offset by repayments of borrowings of approximately RMB52.2 million.

For the eight months ended 31 August 2019, our Group had net cash used in financing activities of approximately RMB114.2 million, which was primarily attributable to (i) repayments of borrowings of approximately RMB113.5 million; and (ii) cash dividends paid of approximately RMB101.4 million to the then shareholders of a subsidiary, and was partially offset by proceeds from borrowings of approximately RMB110.0 million.

NET CURRENT ASSETS

We recorded net current assets of approximately RMB25.3 million, RMB142.4 million, RMB133.9 million and RMB92.3 million as at 31 December 2016, 2017, 2018 and 31 August 2019, respectively. The table below sets out selected information for our current assets and current liabilities as at the dates indicated, respectively:

	As at 31 December			As at 31 August	As at 31 December
	2016	2017	2018	2019	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)
Current assets					
Inventories	22,190	32,091	31,212	41,583	65,060
Trade receivables	34,682	62,137	88,618	92,854	57,639
Prepayments and other receivables	38,442	19,133	20,960	59,626	55,520
Restricted cash	—	—	1,000	1,018	1,018
Cash and cash equivalents	31,096	159,156	188,634	109,748	116,629
	126,410	272,517	330,424	304,829	295,866
Current liabilities					
Trade and other payables	43,919	27,491	44,505	55,817	50,198
License fee payable	2,215	2,576	1,883	2,704	2,940
Contract liabilities	293	968	634	1,463	738
Bank and other borrowings	49,100	90,109	140,189	136,702	142,728
Lease liabilities	1,602	3,508	3,209	3,569	2,546
Current income tax liabilities	3,962	5,430	6,145	12,249	16,617
Amounts due to related parties	—	—	—	—	1,103
	101,091	130,082	196,565	212,504	216,870
Net current assets	25,319	142,435	133,859	92,325	78,996

Our Group's net current assets increased from approximately RMB25.3 million as at 31 December 2016 to approximately RMB142.4 million as at 31 December 2017. The increase in our net current assets was mainly due to the increase in cash and cash equivalents from approximately RMB31.1 million as at 31 December 2016 to approximately RMB159.2 million as at 31 December 2017 mainly derived from the proceeds obtained by our Group from placement of shares of our subsidiary in NEEQ.

Our Group's net current assets decreased from approximately RMB142.4 million as at 31 December 2017 to approximately RMB133.9 million as at 31 December 2018. The decrease in our net current assets was mainly due to the net proceeds of RMB50.1 million obtained from our bank borrowings and other borrowings in 2018 for our operating use, which contributed to the increase of our bank and other borrowings from approximately RMB90.1 million as at 31 December 2017 to approximately RMB140.2 million as at 31 December 2018.

Our Group's net current assets decreased from approximately RMB133.9 million as at 31 December 2018 to approximately RMB92.3 million as at 31 August 2019, mainly attributable to the decrease in cash and cash equivalents by approximately RMB78.9 million mainly due to the payment of dividend of approximately RMB101.4 million by one of our subsidiaries to its then shareholders in May 2019. For the same reasons, our Group's total equity decreased from approximately RMB366.2 million as at 31 December 2018 to approximately RMB293.2 million as at 31 August 2019.

Our Group's net current assets decreased from approximately RMB92.3 million as at 31 August 2019 to approximately RMB79.0 million as at 31 December 2019 mainly due to the increase in bank and other borrowings and current income tax liabilities as at 31 December 2019. The amount due to related parties of approximately RMB1.1 million as at 31 December 2019 mainly represented the amount of cash consideration payable to related parties as a result of the acquisition of 0.99% equity interest of New PRC Holdco by WFOE as part of our Reorganisation. Such amount will be fully settled upon Listing.

Working capital

Our Directors confirm that, taking into consideration the financial resources presently available to us, including cash generated from operating activities, the existing bank borrowings and other borrowings and the estimated net proceeds from the Global Offering (after a Downward Offer Price Adjustment setting the final Offer Price up to 10% below HK$1.17, being the low end of the Offer Price range), we have sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this prospectus.

We monitor and maintain an adequate level of cash and cash equivalents to finance our operations and mitigate the effects of fluctuations in cash flows. Our Directors monitor the level of our bank and other borrowings to ensure adequate utilisation of banking facilities and our compliance with loan covenants.

Details of the funds necessary to meet our existing operations and to fund our future plans are set out in the section headed "Future plans and use of proceeds" in this prospectus.

DESCRIPTION OF CERTAIN ITEMS OF COMBINED STATEMENTS OF FINANCIAL POSITION

Property, plant and equipment

Property, plant and equipment mainly represent buildings, leasehold improvements, mould and machinery for the production of our toy products, furniture and office equipment and asset under construction. As at 31 December 2016, 2017 and 2018 and 31 August 2019, the carrying amount of property, plant and equipment amounted to approximately RMB65.0 million, RMB145.3 million, RMB174.8 million and RMB138.5 million, respectively.

Property, plant and equipment increased from approximately RMB65.0 million as at 31 December 2016 to approximately RMB145.3 million as at 31 December 2017. This was mainly due to (i) the addition of land use rights and buildings of approximately RMB56.4 million mainly attributable to (a) the land use right held by Shantou Yudilong (our then subsidiary which we acquired its 80% and 20% of equity interest in 2017 and 2018, respectively); and (b) the purchase of offices in Shenzhen in 2017; and (ii) increase in mould and machinery purchased by our Group by approximately RMB29.7 million in 2017.

The increase in property, plant and equipment from approximately RMB145.3 million as at 31 December 2017 to approximately RMB174.8 million as at 31 December 2018 was mainly due to (i) increase in construction-in-progress by approximately RMB28.9 million of the New Production Plant; and (ii) increase in mould and machinery purchased by our Group by approximately RMB14.0 million in 2018.

The decrease in property, plant and equipment from approximately RMB174.8 million as at 31 December 2018 to approximately RMB138.5 million as at 31 August 2019 was mainly due to the disposal of land use right held by Shantou Yudilong of approximately RMB27.3 million, which we disposed of its entire equity interest in August 2019.

The land use right held by Shantou Yudilong was leased to Independent Third Parties and we derived rental income of approximately RMB0.7 million and RMB0.5 million for the year ended 31 December 2018 and for the eight months ended 31 August 2019, respectively. In August 2019, we sold the entire equity interests in Shantou Yudilong to two Independent Third Parties to realise our investment in Shantou Yudilong. Upon completion of such disposal of the entire equity interests in Shantou Yudilong on 30 August 2019, we no longer owned Shantou Yudilong and the Yudilong Land.

Intangible assets

Our intangible assets mainly represent our license rights for our products, trademarks and computer software for our operations. As at 31 December 2016, 2017 and 2018 and 31 August 2019, intangible assets amounted to approximately RMB4.9 million, RMB5.4 million, RMB4.9 million and RMB7.7 million, respectively. The increase in our intangible assets from 31 December 2016 to 31 December 2017 was mainly due to additions of licence rights during the year ended 31 December 2017, partially offset by amortisation of intangible assets. The decrease in our intangible assets from 31 December 2017 to 31 December 2018 was mainly due to amortisation of our intangible assets, partially offset by the purchase of new trademark during the year ended 31 December 2018. The increase in our intangible assets from approximately RMB4.9 million as at 31 December 2018 to approximately RMB7.7 million as at 31 August 2019 was mainly due to the additions of license rights during the eight months ended 31 August 2019.

Deferred income tax assets

Deferred income tax assets represent principally the differences between the carrying amount and tax base of our assets and liabilities, and carried forward tax losses and credits. The balance of our deferred tax assets are primarily affected by the unused tax losses and provisions.

As at 31 December 2016, 2017 and 2018 and 31 August 2019, we recognised deferred income tax assets of approximately RMB1.1 million, RMB3.4 million, RMB3.4 million and RMB4.8 million, respectively, for carried forward tax losses of our subsidiaries. The deferred income tax assets increased from approximately RMB1.1 million as at 31 December 2016 to approximately RMB3.4 million as at 31 December 2017 primarily attributable to (i) the increase in deferred income tax assets made for provision by approximately RMB1.2 million; and (ii) the recognition of deferred income tax assets for tax loss of approximately RMB0.8 million in 2017. Our deferred income tax assets remained stable as at 31 December 2018. Our deferred income tax assets increased from approximately RMB3.4 million as at 31 December 2018 to approximately RMB4.8 million as at 31 August 2019 due to the increase in deferred income tax assets made for provision by approximately RMB1.2 million primarily attributable to the increase in the applicable enterprise income tax rate of Kidztech Intelligent from 15% for the year ended 31 December 2018 to 25% for the eight months ended 31 August 2019.

Inventories

Our inventories primarily consist of (i) raw materials such as plastic resins, electronic parts, printed box, pigment and chemical materials; (ii) work in progress mainly comprises semi-finished products; (iii) finished goods which are our toy products ready to be sold; and (iv) packaging materials and consumables. The following table sets forth the components of our inventories as at the dates indicated:

	As at 31 December			As at 31 August
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	13,393	18,523	18,768	27,440
Work in progress	971	1,300	691	510
Finished goods	6,021	8,452	10,600	10,696
Packaging materials and consumables	1,821	3,937	1,262	3,046
	22,206	32,212	31,321	41,692
Less: provision for impairment	(16)	(121)	(109)	(109)
	22,190	32,091	31,212	41,583

Our balance of inventories increased by approximately RMB9.9 million, or approximately 44.6%, from approximately RMB22.2 million as at 31 December 2016 to approximately RMB32.1 million as at 31 December 2017, primarily as a result of the increase in our production scale in 2017. Our balance of inventories remained stable at approximately RMB32.1 million and RMB31.2 million as at 31 December 2017 and 2018, respectively. Our balance of inventories increased by approximately RMB10.4 million, or approximately 33.2%, from approximately RMB31.2 million as at 31 December 2018 to approximately RMB41.6 million as at 31 August 2019, mainly attributable to (i) the increase in raw materials by approximately 46.2% as a result of the usual shipment peak season during June to December of each year resulting the increase in purchases of raw materials as at 31 August 2019 for production; and (ii) the increase in packaging materials and consumables by approximately 141.4% as a result of our purchases of packaging materials for our production during the peak season.

We adopt stringent inventory control and endeavour to maintain low inventory level required for our operations through effective inventory management. We also periodically review our inventory levels for slow moving inventory, obsolescence or declines in market value. Allowance is made against when the net realisable value of inventories falls below the cost or any of the inventories is identified obsolete. We manage our inventory levels principally based on the anticipated demand.

The following table sets forth the turnover days of our inventories for the years/periods indicated.

	For the year ended 31 December			For the eight months ended 31 August
	2016	**2017**	**2018**	**2019**
Average inventory turnover days	63.0	59.4	63.1	67.1

Note: Average inventory turnover days are derived by dividing the arithmetic mean of the opening and closing balances of inventories for the relevant year/period by cost of sales and multiplying by the number of days in the relevant year/period.

During the Track Record Period, our average inventory turnover days remained largely stable at approximately 63.0 days, 59.4 days, 63.1 days and 67.1 days for the year ended 31 December 2016, 2017 and 2018 and for the eight months ended 31 August 2019, respectively.

As at 31 December 2019, approximately RMB31.2 million or 74.9% of our inventories as at 31 August 2019 had been sold or utilised.

Trade receivables

Trade receivables as at the respective year/period end during the Track Record Period principally represented the outstanding amounts receivable by us from our customers. The following table sets forth our trade receivables as at the dates indicated:

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	36,407	70,432	93,977	99,332
Less: provision for impairment of trade receivables	(1,725)	(8,295)	(5,359)	(6,478)
	34,682	62,137	88,618	92,854

Our trade receivables increased from approximately RMB34.7 million as at 31 December 2016 to approximately RMB62.1 million as at 31 December 2017, and further increased to approximately RMB88.6 million as at 31 December 2018, primarily due to the increase in trade receivables from our PRC customers. We usually allow a longer credit period to our PRC customers as compared to our overseas customers in light of the different characteristics in the different markets. Our trade receivables further increased to approximately RMB92.9 million as at 31 August 2019, primarily due to the increase in sales during the eight months ended 31 August 2019 as a result of the usual shipment peak season between June and December of the year.

Our Group's trading terms with our customers are mainly on credit. Before accepting any new customers, our Group will apply an internal credit assessment policy to assess the potential customer's credit quality. The credit period generally ranges from 30 to 120 days. Our Group seeks to maintain strict control over our outstanding receivables to minimise the credit risk. We typically do not hold any collateral as security but we may request down payment from our customers.

Our management reviews our trade receivables for objective evidence of impairment. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, and default or significant delay in payments are considered as objective evidence that a receivable is impaired. In determining this, our management makes judgements as to whether there is observable data indicating that there has been a significant change in the payment ability of the debtor, or whether there have been significant changes with adverse effect on the market and economic environment in which the debtor operates in. Where there is objective evidence of impairment, our management makes judgements as to whether an impairment loss should be recorded as an expense.

Our provision for impairment of trade receivables increased from approximately RMB1.7 million as at 31 December 2016 to approximately RMB8.3 million as at 31 December 2017, primarily as a result of liquidation of the Renowned Toy Specialty Retailer US and the Renowned Toy Specialty Retailer Netherlands in 2017. Please refer to the sub-paragraph headed "Developments adverse to our major customers could have an adverse effect on us." under the paragraph headed

"Risks relating to our business" under the section headed "Risk factors" for further details in relation to the Retailer's Liquidation. Our provision for impairment of trade receivables decreased to approximately RMB5.4 million as at 31 December 2018, primary due to (i) the settlement of certain amount of trade receivables from the Renowned Toy Specialty Retailer Netherlands in 2018; and (ii) written-off of approximately RMB4.4 million from the amount receivables from the Renowned Toy Specialty Retailer US and the Renowned Toy Specialty Retailer Netherlands, partially offset by (i) increase in general provision for impairment due to the overall increase in our trade receivables as a result of the growth of our operations; and (ii) specific provision of approximately RMB1.4 million on the full amount of account receivables due from one customer, which operated chains of toy specialty stores with a brand for high street and mall concept store focusing on convenient toy shopping, and traded under the name of the Renowned Toy Specialty Retailer, in the Nordics and was liquidated in December 2018. Our provision for impairment of trade receivables increased to approximately RMB6.5 million as at 31 August 2019, primary due to the increase in expected credit loss for impairment since there was an overall increase in trade receivables as a result of the growth of our operations for the eight months ended 31 August 2019.

The following table sets forth the aging analysis of our trade receivables based on invoice date, as at the dates indicated:

	As at 31 December			As at 31 August
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Less than 30 days	16,848	40,371	53,787	52,437
31 days to 120 days	16,114	24,648	35,515	36,144
121 days to 1 year	3,269	5,249	4,393	9,814
1 year to 2 years	176	—	110	667
More than 2 years	—	164	172	270
Total	36,407	70,432	93,977	99,332

As at 31 August 2019, out of our trade receivables of approximately RMB10.8 million which were aged more than 120 days, approximately RMB2.1 million, representing approximately 19.3% of trade receivables aged more than 120 days as at 31 August 2019, were made for provision.

As at 31 December 2019, approximately RMB83.0 million, or approximately 84.0%, of our trade receivables outstanding as at 31 August 2019 were subsequently settled. Out of the subsequent settlement amount of approximately RMB83.0 million, approximately RMB6.7 million were aged more than 120 days as at 31 August 2019. Such amount was owed by our customers which are generally large scale companies and have higher bargaining power. According to the CIC Report, it is an industry norm that some customers, particularly some large scale retailers with high bargaining power, prolong payment to toy manufacturers.

The table below sets forth a summary of average turnover days of our trade receivables for the years/periods indicated:

	For the year ended 31 December			For the eight months ended 31 August
	2016	**2017**	**2018**	**2019**
Average turnover days of trade receivables *(Note)*	60.5	68.2	98.7	104.9

Note: Average turnover days of trade receivables are derived by dividing the arithmetic mean of the opening and closing balances of trade receivables for the relevant year/period by revenue and multiplying by the number of days in the relevant year/period.

During the Track Record Period, our average turnover days of trade receivables amounted to approximately 60.5 days, 68.2 days, 98.7 days and 104.9 days, respectively, which were within our general range of credit period. Our average turnover days of trade receivables increased to approximately 98.7 days for the year ended 31 December 2018 mainly because there was an increase in our sales to PRC customers for the year ended 31 December 2018, and we usually allow a longer credit period for our PRC customers as compared to our overseas customers in light of the different characteristics in the different markets. Our average turnover days of trade receivables increased to approximately 104.9 days for the eight months ended 31 August 2019, which was mainly attributable to the increase in trade receivables as a result of the usual shipment peak season taking place between June and December of the year and therefore relatively larger sales and accounts receivable were recognised in June to August 2019.

Prepayments and other receivables

The following table sets forth an analysis of our prepayments and other receivables as at the dates indicated:

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments	69,558	63,995	73,081	81,769
Deposits	26,042	2,500	2,962	2,886
Other receivables	2,259	2,173	1,047	1,034
Right to returned goods	375	575	1,067	696
Incurred listing expenses to be capitalised after the Listing	—	—	—	2,697
Receivables related to disposal of a subsidiary	—	—	—	28,050
	98,234	69,243	78,157	117,132
Less: non-current portion				
Prepayments for properties, plant and equipment	(59,792)	(50,110)	(57,197)	(57,506)
	38,442	19,133	20,960	59,626

Our prepayments mainly represent prepayments made for construction of buildings, purchases of moulds, packaging materials and equipment. Our prepayments as at 31 December 2016 mainly represented prepayment of consideration for acquisition of certain parcel of land and factory located in Shantou, the PRC, from an Independent Third Party in 2016. Our prepayments as at 31 December 2017 and 2018 and as at 31 August 2019 mainly represented our prepayments to Independent Third Parties for properties, plant and equipment in relation to the construction of the New Production Plant, and prepayment for purchases of moulds and packaging materials.

For the prepayment for properties, plant and equipment in relation to buildings under construction, pursuant to the Planned Expansion, our Group has commenced preliminary construction work of the New Production Plant such as land filling since the last quarter of 2017. The relevant prepayment will be transferred to construction-in-progress according to the progress of the construction. It is expected that the construction of the New Production Plant will be completed in or around the second quarter of 2020.

Deposits mainly represent (i) one-off payment under the loan arrangement with a State-owned company named Shantou Jinyuan Asset Operation Company Limited* (汕頭市金源資產經營有限公司) ("**Shantou Jinyuan**", being a state-owned enterprise wholly-owned by the Finance Bureau of Shantou; Shantou Jinyuan later transferred its equity interest in Kidztech Infotech in 2017 to Shantou Tourongzi Group Co., Ltd* (汕頭市投融資集團公司) (Shantou Tourongzi Group Co., Ltd together with Shantou Jinyuan, each a "**State-owned Company**"), being a company wholly owned by the Shantou Municipal Government, being an Independent Third Party), for establishment of Kidztech Infotech; and (ii) deposits for leases of our offices.

Pursuant to an agreement signed between our Group and the State-owned Company in 2016, Kidztech Intelligent had been accredited as an enterprise for technological enhancement and Kidztech Infotech would receive a loan of RMB25.0 million from the State-owned Company upon the establishment of Kidztech Infotech. Pursuant to the agreement, the State-owned Company paid a prepayment of RMB25.0 million to our Group in 2016 as refundable deposit before the establishment of Kidztech Infotech, including completion of due diligence on Kidztech Intelligent and obtaining approval from the relevant PRC authority by the State-owned Company. For the purpose of securing the refundable deposit from the State-owned Company, the State-owned Company requested our Group to pay RMB25.0 million of security deposit which was refundable upon the establishment of Kidztech Intelligent. The deposits paid by our Group and received by our Group were recorded as other receivables and other payables, respectively, as at 31 December 2016. After the establishment of Kidztech Infotech, the deposit paid by our Group was subsequently refunded to our Group in March 2017. The refundable deposit received by our Group from the State-owned Company was subsequently injected into Kidztech Infotech as paid in capital, and was recognised as our other borrowings. For further details of our other borrowings, please refer to the sub-paragraph headed "Bank loans" under the paragraph headed "Indebtedness" in this section.

Other receivables mainly represent receivables from refund of exporting tax.

Our prepayments and other receivables decreased from approximately RMB98.2 million as at 31 December 2016 to approximately RMB69.2 million as at 31 December 2017, mainly due to the refund of the one-off deposit of RMB25.0 million from the State-owned Company in 2017.

Our prepayments and other receivables increased slightly from approximately RMB69.2 million as at 31 December 2017 to approximately RMB78.2 million as at 31 December 2018, mainly due to the increase in prepayment by approximately 14.2% mainly for prepayment for buildings under construction of the New Production Plant.

Our prepayments and other receivables increased to approximately RMB117.1 million as at 31 August 2019 mainly due to (i) increase in prepayments primarily as a result of the increase in purchases of packaging materials as at 31 August 2019 for the sale of our products during the usual peak seasons between June and December of the year; (ii) incurrence of listing expenses of approximately RMB2.7 million to be capitalised in relation to the preparation work for our Listing; and (iii) receivables of approximately RMB28.1 million related to our disposal of Shantou Yudilong. Such receivables were fully settled in December 2019.

Trade and other payables

Our trade and other payables mainly represent the outstanding amounts payable by us to our suppliers, payroll expenses and other expenses. During the Track Record Period, the payment term for our suppliers were generally with a credit term of 30 days to 90 days.

The following table sets forth our trade and other payables as at the dates indicated:

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	10,475	13,623	21,050	31,146
Accrued listing expenses	—	—	—	8,211
Accrued other expenses	4,152	6,096	5,558	8,880
Payroll payable	1,922	3,764	4,065	4,465
Value-added-tax and other tax payable	1,677	2,897	12,095	2,007
Refund liabilities	693	1,111	1,737	1,108
Refundable deposits *(Note)*	25,000	—	—	—
	43,919	27,491	44,505	55,817

Note: Pursuant to an agreement entered into between our Group and the State-owned Company in 2016, Kidztech Infotech would be financed by the State-owned Company. Both parties were required to pay a refundable deposit of RMB25.0 million to each other before the establishment of Kidztech Infotech. After the establishment of Kidztech Infotech, the refundable deposit received by our Group from the State-owned Company was subsequently injected into Kidztech Infotech as paid in capital and was recognised as our other borrowings in March 2017.

Our trade and other payables balance decreased by approximately RMB16.4 million or approximately 37.4% from approximately RMB43.9 million as at 31 December 2016 to approximately RMB27.5 million as at 31 December 2017. The decrease was mainly due to the refund of deposit in relation to a loan arrangement with the State-owned Company of RMB25.0 million in 2017.

Our trade and other payables increased by approximately RMB17.0 million or approximately 61.9% from approximately RMB27.5 million as at 31 December 2017 to approximately RMB44.5 million as at 31 December 2018. The increase was mainly due to the increase in other tax payable in 2018 as a result of the increase in value-added-tax mainly attributable by the sale of raw materials in the second half of 2018.

Our trade and other payables increased by approximately RMB11.3 million or approximately 25.4% from approximately RMB44.5 million as at 31 December 2018 to approximately RMB55.8 million as at 31 August 2019. The increase was mainly due to the increase in trade payables mainly attributed from purchases of raw materials as at 31 August 2019 to cope with our production for the peak seasons from June to December.

The table below sets out an ageing analysis of our trade payables based on invoice date as at the end of the reporting periods indicated:

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Less than 30 days	6,603	5,390	7,847	9,345
31 days to 120 days	3,236	4,015	5,063	5,454
121 days to 1 year	516	1,780	4,001	12,260
1 year to 2 years	120	2,438	3,455	3,958
More than 2 years	—	—	684	129
	10,475	13,623	21,050	31,146

As at 31 December 2019, approximately RMB18.6 million out of the RMB31.1 million trade payables as at 31 August 2019 had been subsequently settled.

The following table sets out our average trade payables turnover days for the Track Record Period:

	For the year ended 31 December			For the eight months ended 31 August
	2016	2017	2018	2019
Average turnover days of trade payables *(Note)*	32.2	26.4	34.6	48.1

Note: Average turnover days of trade payables are derived by dividing the arithmetic mean of the opening and closing balances of trade payables for the relevant year/period by cost of sales and multiplying the resulting value by the number of days in the relevant year/period.

Our average trade payable turnover days are largely stable for the three years ended 31 December 2018. Our average trade payable turnover days increased to approximately 48.1 days mainly due to the increase in trade payables for the eight months ended 31 August 2019 mainly attributed from the increase in purchases of raw materials during our peak season.

License fee payable

	As at 31 December			As at 31 August
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
License fee payable				
— Current	2,215	2,576	1,883	2,704
— Non-current	1,741	2,179	868	1,528
	3,956	4,755	2,751	4,232

Our license fee payable represents the minimum charge payable under our licensing agreements entered into with our intellectual properties licensors. During the Track Record Period, our license fee payable amounted to approximately RMB4.0 million, RMB4.8 million, RMB2.8 million and RMB4.2 million, respectively. The decrease in our license fee payable for the year ended 31 December 2018 was mainly due to the decrease in minimum charge payable as a result of some of our licensing agreements then subsisting would expire towards the end of 31 December 2018.

Deferred revenue

Deferred revenue mainly represents government grants received by us that are related to property, plant and equipment. Such government grants are credited to the combined statement of comprehensive income on a straight-line basis over the expected lives of the related assets. As we only received government grants related to our plastic injection moulding machines and production technology for smart toy vehicles in 2017, we recorded deferred revenue of approximately RMB2.1 million, RMB3.7 million and RMB3.0 million as at 31 December 2017, 2018 and 31 August 2019, respectively.

Current income tax liabilities

Our current income tax liabilities represent our enterprise income tax payable. It amounted to approximately RMB4.0 million, RMB5.4 million, RMB6.1 million and RMB12.2 million as at 31 December 2016, 2017 and 2018 and 31 August 2019, respectively.

RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered related if they are subject to common control. Members of key management and their close family member are considered as related parties. For a detailed discussion of related party transactions, please refer to Note 31 to the Accountant's Report in Appendix I to this prospectus.

Significant related party transactions

During the Track Record Period, we rented the Production Plant II from Chenghai Changxing. Our leases are recognised as a right-of-use asset and a corresponding liability, each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Accordingly, we recorded interest expenses on lease liabilities of approximately RMB0.3 million, RMB0.3 million, RMB0.2 million and RMB0.1 million for the three years ended 31 December 2018 and the eight months ended 31 August 2019, respectively. For further details regarding our rental arrangement with Chenghai Changxing, please refer to the paragraph headed "Transaction entered into before Listing which would otherwise constitute a connected transaction" under the section headed "Relationship with our Controlling Shareholders" in this prospectus.

In addition, as at 31 December 2017 and 2018 and 31 August 2019, certain of our Group's bank and other borrowings were secured by (i) personal guarantees provided by Mr. Yu and Ms. Chen and a then shareholder of Kidztech Intelligent, namely Mr. Yu Junhao (the ultimate beneficial owner of Youthful Jaguar, one of our Shareholders), and such personal guarantees will be released or replaced by corporate guarantees provided by our Group upon Listing; and (ii) the equity interests held by Mr. Yu in Kidztech Intelligent, which were released and replaced by the equity interests held by a then shareholder of Kidztech Intelligent, namely Mr. Cai (the spouse of Ms. Zheng Jingyun, our non-executive Director) on 16 May 2018, and such pledge was released in September 2019. For further details regarding the personal guarantee provided by Mr. Yu, please refer to the sub-paragraph headed "Bank loans" under the paragraph headed "Indebtedness" in this section below.

Balances with related parties

As at 31 December 2016, 2017 and 2018 and 31 August 2019, our balances with Chenghai Changxing amounted to approximately RMB0.3 million, RMB0.3 million, RMB0.3 million and RMB0.3 million, respectively, representing our lease deposits due from Chenghai Changxing for our lease of the Production Plant II.

With respect to the related party transactions set forth in Note 31 to the Accountant's Report in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on arm's length basis and on normal commercial terms or such terms were no less favourable to our Group than those available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole.

CONTRACTUAL OBLIGATIONS AND OTHER OFF-BALANCE SHEET ARRANGEMENTS

Capital commitments

The following table sets forth an aggregate capital commitment as at 31 December 2016, 2017 and 2018 and 31 August 2019:

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total	4,971	77,689	43,206	50,267

Our capital commitment principally represents our commitment for construction of property, equipment and building including the construction of the New Production Plant.

INDEBTEDNESS

Bank and other borrowings

The following table sets out our total debts as at the dates indicated:

	As at 31 December			As at 31 August	As at 31 December
	2016	2017	2018	2019	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*
Non-current liabilities					
— Lease liabilities	3,092	3,089	1,806	430	186
Current liabilities					
— Bank borrowings — secured	49,000	49,000	104,000	104,000	92,500
— Other borrowings — secured *(Note)*	100	41,109	36,189	32,702	50,228
— Lease liabilities	1,602	3,508	3,209	3,569	2,546
— Amount due to related parties	—	—	—	—	1,103
	53,794	96,706	145,204	140,701	146,563

Note: Other borrowings included loans from non-bank financial institutions and a loan from the State-owned Company.

Lease liabilities mainly represent net present value for lease payments in respect of our leased properties.

Lease liabilities increased from approximately RMB4.7 million as at 31 December 2016 to approximately RMB6.6 million as at 31 December 2017, primarily attributable to the increase in current lease liabilities by approximately RMB1.9 million as a result of the lease of our Hong Kong office. Lease liabilities decreased to approximately RMB5.0 million as at 31 December 2018, primarily due to the rental paid during the year ended 31 December 2018. Lease liabilities further decreased to approximately RMB4.0 million as at 31 August 2019, primarily due to decrease in non-current lease liabilities by approximately RMB1.4 million as a result of rental paid during the eight months ended 31 August 2019. Lease liabilities further decreased to approximately RMB2.7 million as of 31 December 2019, mainly due to our continuous rental payment during the four months ended 31 December 2019.

Our weighted average effective interest rate as at 31 December 2016, 2017 and 2018, 31 August 2019 and 31 December 2019 were approximately 5.9%, 6.0%, 6.2%, 6.1% and 6.3%, respectively.

The bank borrowings as at 31 December 2016, 2017 and 2018 and 31 August 2019, were secured by our Group's property, plant and equipment, restricted cash, and personal guarantees of Mr. Yu and Ms. Chen, and equity interests held by a shareholder of Kidztech Intelligent, and Shantou Yudilong's property. During the eight months ended 31 August 2019, Shantou Yudilong's property was disposed of to Independent Third Parties, such property remained as a collateral of our Group's borrowings until our Group received the proceeds of the sale of Shantou Yudilong, which was settled in November 2019. For further details, please refer to Note 27 to the Accountant's Report as set out in Appendix I to this prospectus. The guarantees provided by Mr. Yu and Ms. Chen and a then shareholder of Kidztech Intelligent, namely Mr. Yu Junhao (the ultimate beneficial owner of Youthful Jaguar, one of our Shareholders), will be released or replaced by corporate guarantees provided by our Company upon Listing.

As at 31 December 2016, 2017 and 2018 and 31 August 2019 and 31 December 2019, all our bank and other borrowings, amounting approximately RMB49.1 million, RMB90.1 million, RMB140.2 million, RMB136.7 million and RMB142.7 million, respectively, are repayable on demand.

According to the Opinions of the General Office of the People's Government of Guangdong Province on the Implementation of Equity Investment Management by Provincial Financial Operating Funds (《廣東省人民政府辦公廳關於省財政經營性資金實施股權投資管理的意見(試行)》) ("**Funds Opinion**") issued on 25 April 2013, the PRC government intended to subsidise and encourage development of, among others, high-tech industry and innovative entrepreneurial enterprises, by way of provision of capital via equity investment by certain authorised equity management entity. The authorised equity management entity would establish new companies together with eligible entities to provide capital for use in specified projects. Under the Funds Opinion, any entities that were involved in emerging, high-tech and innovative businesses and were approved by the PRC government will be eligible for the fund.

Under the implementation of the above government policies to motivate technology improvements in enterprises in Guangdong Province, Kidztech Intelligent had applied for the government subsidy. According to the 2015 Guangdong Province Enterprise Technology

Transformation Fund (Fourth Batch) Project Application Requirements (2015年廣東省省級企業技術改造資金(第四批)項目申報要求) ("**2015 Notice**") issued on 15 October 2015, the application requirements for the government funding include (i) the applicant being an independent legal person and is registered with the Industry and Commerce Department in Guangdong Province in accordance with the applicable law; (ii) the total amount of investment of the project has to be over RMB50 million; and (iii) the scope of the project has to be permitted under the Guide to the Catalogue of Technical Reforms for Industrial Enterprises in Guangdong Province (《廣東省工業企業技術改造指導目錄》).

Since Kidztech Intelligent, being an applicant, fulfilled the application requirements under Funds Opinion and 2015 Notice, it was then listed as one of the only four entities which were entitled to receive relevant government funding set out in the Announcement of Supplementary Plans of Investment Projects Regarding 2015 Guangdong Province Enterprise Technology Transformation Fund (Fourth Batch) (《關於2015年廣東省省級企業技術改造資金(第四批)股權投資補充項目的公示》) issued on 26 May 2016.

It was stated in the Funds Opinion that the provision of government funds can be by way of equity investment into entities jointly established by the authorised equity management entity (i.e. the State-owned Company) and eligible entities (i.e. Kidztech Intelligent). As such, Kidztech Infotech was proposed to be set up by Kidztech Intelligent and the State-owned Company. As advised by our PRC Legal Advisers, despite Kidztech Infotech has no active business, given that (i) Kidztech Intelligent was listed as an eligible entity for the government funds; (ii) provision of government funds can be by way of equity investment in a newly established company (i.e. Kidztech Infotech) under Fund Opinions; (iii) Kidztech Intelligent is the controlling shareholder of Kidztech Infotech; (iv) the government funds had been transferred by Kidztech Infotech to Kidztech Intelligent and used by Kidztech Intelligent to invest in the production of smart interactive toys and smart hardware; and (v) the State-owned Company had confirmed that it had monitored and understood the use of such government fund by Kidztech Intelligent to carry out the intended purpose, and it is not aware of any breach or non-compliance matter regarding the arrangement and use of such funds, the use of government funds by Kidztech Intelligent did not violate any applicable laws, rules and regulations of the PRC.

Kidztech Intelligent entered into an agreement with the State-owned Company pursuant to which Kidztech Intelligent and the State-owned Company would inject equity capital of RMB71.0 million and RMB25.0 million respectively into Kidztech Infotech, representing respective equity interest of 73.96% and 26.04%. Under the arrangement, Kidztech Intelligent was required to repay the equity investment of RMB25.0 million to the State-owned Company on 30 March 2020 together with an aggregate fixed return of approximately RMB1.9 million. The State-owned Company is not entitled to any share of profit or residual assets of Kidztech Infotech. The RMB25.0 million capital injection from the State-owned Company was treated as other borrowings of our Group during the Track Record Period. According to HKFRS 9, such amount of RMB25.0 million would be categorised as financial liability as (i) our Group has contractual obligation to pay the State-owned Company; and (ii) our Group has an obligation to purchase the equity interest in Kidztech Infotech where there is a liability for the amount that our Group is obliged to pay. Pursuant to the above agreement, the purpose of the fund was to invest in the production of smart interactive toys and smart hardware and the government fund obtained by Kidztech Infotech was used by Kidztech Intelligent and our Group to carry out the above purposes. Kidztech Infotech has been a dormant company since its establishment as Kidztech Infotech was set up for the sole purpose of obtaining government funds for Kidztech Intelligent. Apart from the abovementioned government funds, Kidztech Infotech has no operations since its establishment.

In addition, our other borrowings also comprised finance leases of our plastic injection moulding machines, moulds and vehicles for our operations from non-bank financial institutions and motor vehicle companies. The following shows the breakdown of our other borrowings during the Track Record Period and as at 31 December 2019:

	As at 31 December			As at 31 August	As at 31 December
	2016	**2017**	**2018**	**2019**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Loan from the State-owned Company	—	25,000	25,000	25,000	25,000
Finance lease of plastic injection moulding machines and moulds	—	15,000	10,330	7,034	24,675
Finance lease of vehicles	100	1,109	859	668	553
Total	100	41,109	36,189	32,702	50,228

Our other borrowings increased from RMB0.1 million as at 31 December 2016 to approximately RMB41.1 million as at 31 December 2017, mainly due to the loan arrangement with the State-owned Company of RMB25.0 million. Our other borrowings decreased from approximately RMB41.1 million as at 31 December 2017 to approximately RMB36.2 million as at 31 December 2018, and further decreased to approximately RMB32.7 million as at 31 August 2019, mainly attributable to our continuous repayment of finance lease due to non-bank financial institutions and motor vehicle companies. Our other borrowings increased from approximately RMB32.7 million as at 31 August 2019 to approximately RMB50.2 million as at 31 December 2019 mainly attributable to the increase in finance lease of our plastic injection moulding machines and moulds by approximately RMB17.6 million as at 31 December 2019.

The amount due to related parties of approximately RMB1.1 million as at 31 December 2019 mainly represented the amount of cash consideration payable to related parties as a result of the acquisition of 0.99% equity interest of New PRC Holdco by WFOE as part of our Reorganisation. Such amount will be fully settled upon Listing.

Our facility agreements contains standard terms and conditions that are customary for commercial banking facilities. Our facility agreement contains material covenants that, among others, restrict us from conducting mergers, acquisitions, divisions or other reorganisations, disposing of material assets, making material investments, or incurring material indebtedness. During the Track Record Period and up to the Latest Practicable Date, we had not violated any of these covenants that could have a material adverse effect on our business operations. During the Track Record Period, we did not experience any default in repayment of our bank loans or any difficulties in obtaining bank facilities with terms that are commercially acceptable to us. Our facility agreements generally require us to obtain the banks' consents or make appropriate repayment or security arrangements with the banks before material mergers and acquisitions. Our Directors do not expect that such covenants and requirements would materially restrict our Group's overall ability to undertake additional debt or equity financing.

As at 31 December 2019, being the latest practicable date for the purpose of the indebtedness statement, we had aggregate banking facilities of approximately RMB119.0 million, of which approximately RMB26.5 million was unutilised.

As at the Latest Practicable Date, we did not have any plan for material external debt financing.

Contingent liabilities

As of the Latest Practicable Date, we did not have any material contingent liabilities.

Disclaimers

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, as at 31 December 2019, our Group did not have any outstanding mortgage, charge, debenture or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees, material covenants, or other material contingent liabilities.

KEY FINANCIAL RATIOS

The following table sets out a summary of certain financial ratios for the periods or as of the dates indicated:

	For the year ended/as at 31 December			For the eight months ended/as at 31 August
	2016	2017	2018	2019
Gross profit margin(1)	39.6%	35.7%	34.3%	37.3%
Net profit margin(2)	15.6%	13.9%	11.8%	13.2%
Adjusted net profit margin (non-HKFRS measures)(3)	15.6%	12.2%	11.8%	15.6%
Return on equity (4)	22.3%	10.7%	8.9%	N/A(*)
Return on total asset(5)	13.0%	7.6%	5.7%	N/A(*)
Current ratio (6)	1.3	2.1	1.7	1.4
Quick ratio (7)	1.0	1.8	1.5	1.2
Gearing ratio(8)	35.9%	28.6%	39.7%	48.0%
Net debt to equity ratio(9)	15.2%	N/A(#)	N/A(#)	10.2%
Interest coverage ratio(10)	11.4 times	9.5 times	6.2 times	7.0 times

Notes:

1. Gross profit margin is calculated by subtracting cost of sales from total revenue and dividing that by total revenue for the year/period and multiplied by 100%.

2. Net profit margin is calculated by dividing profit for the year/period by the respective total revenue and multiplied by 100%.

3. Adjusted net profit margin is calculated by dividing adjusted net profit for the year/period by the respective total revenue and multiplied by 100%. These are calculated based on non-HKFRS measures. For the reconciliations of our non-HKFRS financial measures, please refer to the sub-paragraph headed "Reconciliation" under the paragraph headed "Non-HKFRS measures" in this section above.

4. Return on equity is calculated based on the profit for the year/period divided by total equity at the end of the year and multiplied by 100%.

5. Return on total asset is calculated by dividing profit for the year/period by total assets and multiplied by 100%.

6. Current ratio is calculated based on the total current assets at the respective dates divided by the total current liabilities at the respective dates.

7. Quick ratio is calculated based on the total current assets (excluding inventories) at the respective dates divided by the total current liabilities at the respective dates.

8. Gearing ratio represents total bank and other borrowings and lease liabilities divided by total equity as at the end of the financial year/period and multiplied by 100%.

9. Net debt to equity ratio represents total borrowings and lease liabilities less cash and cash equivalents and restricted cash divided by total equity as at the end of the financial year/period.

10. Interest coverage ratio is calculated by dividing profit before interest and tax by finance costs.

The figure is not meaningful as it recorded net cash at the end of the respective year.

* The figure for the eight months ended 31 August 2019 is not meaningful as it is not comparable to the annual figures.

Gross profit margin

As the growth in cost of sales was larger than the growth in revenue, our gross profit margin decreased from approximately 39.6% for the year ended 31 December 2016 to approximately 35.7% for the year ended 31 December 2017. The decrease was mainly attributable to (i) the increase in purchases of moulds and machinery resulting in the increase in depreciation expenses; (ii) the decrease in gross profit margin of retailer customers mainly due to the decrease in our sale to the Renowned Toy Specialty Retailer US and the Renowned Toy Specialty Retailer Netherlands as a result of the Retailer's Liquidation; and (iii) the increase in proportion of sale of our products to PRC customers in 2017 with lower profit margin.

Our gross profit margin slightly decreased from approximately 35.7% for the year ended 31 December 2017 to approximately 34.3% for the year ended 31 December 2018, the decrease was mainly attributable to (i) the decrease in gross profit margin of retailer customers mainly due to the decrease in our sale to the Renowned Toy Specialty Retailer US and the Renowned Toy Specialty Retailer Netherlands as a result of the Retailer's Liquidation; and (ii) the increase in the proportion of sale of our products to our PRC customers including PRC Export-Oriented Wholesalers and PRC Domestic-Oriented Wholesalers in 2018 with lower profit margin so as to expand and diversify our customer base by focusing more on PRC based customers.

Our gross profit margin increased to approximately 37.3% for the eight months ended 31 August 2019. The increase in our gross profit margin was primarily due to (i) the appreciation of US dollars against RMB as we usually billed our overseas customers in US dollars; (ii) increase in overall sales to overseas retailer customers and overseas wholesaler customers with higher profit margin; and (iii) the increase in gross profit margin of our sale to PRC Export-Oriented Wholesalers for the eight months ended 31 August 2019 as the sale of our new smart toy vehicles in second half of 2018 to PRC Export-Oriented Wholesalers which could earn relatively higher profit margin, as explained above.

Net profit margin

Given that there was a decrease in gross profit margin between 2016 and 2017 as mentioned above, our net profit margin slightly decreased from approximately 15.6% for the year ended 31 December 2016 to approximately 13.9% for the year ended 31 December 2017.

Our net profit margin decreased from approximately 13.9% for the year ended 31 December 2017 to approximately 11.8% for the year ended 31 December 2018, due to (i) the overall decrease in gross profit margin as mentioned above; and (ii) the increase in income tax expenses mainly attributable from the tax on dividend income as mentioned above.

Our net profit margin increased to approximately 13.2% for the eight months ended 31 August 2019, which was primarily due to (i) the increase in our gross profit for the eight months ended 31 August 2019; (ii) the decrease in net impairment loss on financial assets; and (iii) the increase in other income and other gains for the eight months ended 31 August 2019.

Adjusted net profit margin (Non-HKFRS measures)

Our adjusted net profit margin amounted to approximately 15.6%, 12.2%, 11.8% and 15.6% during the Track Record Period, respectively. The fluctuations of the adjusted net profit margin during the Track Record Period was in line with the fluctuations of the net profit margin during the Track Record Period.

Return on equity

Our return on equity was approximately 22.3%, 10.7%, 8.9% and N/A for the three years ended 31 December 2018 and the eight months ended 31 August 2019, respectively. Such decrease in our return on equity for the year ended 31 December 2017 was mainly due to the increase in total equity attributed by the fund raising from placing of shares of Kidztech Intelligent on NEEQ in 2017. Our return on equity remained stable between 2017 and 2018.

Return on total asset

Our return on total asset amounted to approximately 13.0%, 7.6%, 5.7% and N/A during the Track Record Period, respectively. The decreasing trend of our return on total asset was mainly due to the increase in (i) cash as a result of the fund raising from placing of shares of Kidztech Intelligent on NEEQ in 2017; and (ii) property, plant and equipment for the two years ended 31 December 2018 as discussed under the sub-paragraph headed "Property, plant and equipment" under the paragraph headed "Description of certain items of combined statements of financial position" in this section above.

Current ratio

Our current ratio during the Track Record Period amounted to approximately 1.3, 2.1, 1.7 and 1.4 respectively. The increase in our current ratio from approximately 1.3 as at 31 December 2016 to approximately 2.1 as at 31 December 2017 was mainly due to the increase in cash as a result of fund raising from placing of shares of Kidztech Intelligent on NEEQ in 2017. Our current ratio decreased to approximately 1.7 as at 31 December 2018 and further to approximately 1.4 as at 31 August 2019 mainly due to the increase in (i) our capital expenditure during the year ended 31 December 2018; (ii) cash dividend of approximately RMB101.4 million to the then shareholders of Kidztech Intelligent during the eight months ended 31 August 2019; and (iii) short term bank and other borrowings for our operating use.

Quick ratio

Our quick ratio remained stable at approximately 1.0, 1.8, 1.5 and 1.2 as at 31 December 2016, 2017, 2018 and 31 August 2019, respectively.

Gearing ratio

Our gearing ratio was approximately 35.9%, 28.6%, 39.7% and 48.0% during the Track Record Period, respectively. Our gearing ratio decreased from approximately 35.9% as at 31 December 2016 to approximately 28.6% as at 31 December 2017 mainly due to the increase in equity as a result of the fund raising from placing of shares of Kidztech Intelligent on NEEQ in 2017. Our gearing ratio increased to approximately 39.7% mainly due to the increase in bank borrowings by RMB55.0 million from 31 December 2017 to 31 December 2018. Our gearing ratio further increased to approximately 48.0% as at 31 August 2019 mainly due to payment of cash dividend of approximately RMB101.4 million to the then shareholders of Kidztech Intelligent during the eight months ended 31 August 2019.

Net debt to equity ratio

Our net debt to equity ratio was approximately 15.2%, N/A, N/A and 10.2% during the Track Record Period, respectively. Our net debt to equity ratio decreased from approximately 15.2% as at 31 December 2016 to net cash as at 31 December 2017 and 2018 mainly due to the increase in cash as a result of the fund raising from placing of shares of Kidztech Intelligent on NEEQ in 2017. Our net debt to equity ratio increased to approximately 10.2% as at 31 August 2019 mainly due to payment of cash dividend of approximately RMB101.4 million to the then shareholders of Kidztech Intelligent during the eight months ended 31 August 2019.

Interest coverage ratio

Our interest coverage ratio amounted to approximately 11.4 times, 9.5 times, 6.2 times and 7.0 times during the Track Record Period, respectively. The decreasing trend of our interest coverage ratio was mainly due to the increase in our finance costs attributable by the increase in bank and other borrowings during the same period.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to market risks from changes in market rates and prices, such as interest rates, credit and liquidity. See Note 3.1.1 to the Accountant's Report as set out in Appendix I to this prospectus for details.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, there were no circumstances that would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Listing Rules.

LISTING EXPENSES

Assuming that the Adjustment Options are not exercised at all, the listing expenses in connection with Listing, which include professional fees, underwriting commission and fees, assuming an Offer Price of HK$1.32 per Share, being the mid-point of the proposed Offer Price range, are estimated to be RMB35.6 million. During the Track Record Period, we incurred listing expenses of approximately RMB8.6 million which was recognised in our combined statements of comprehensive income for the eight months ended 31 August 2019, and approximately RMB2.7 million was recognised as prepayments in the combined statements of financial position as at 31 August 2019, which will be accounted for as a deduction from equity upon Listing. Subsequent to the Track Record Period, we expect to further incur listing expenses of RMB25.2 million prior to and upon completion of Listing, of which (i) RMB18.2 million is expected to be recognised as expenses in our combined statements of comprehensive income for the two years ending 31 December 2020; and (ii) RMB7.0 million is expected to be accounted for as a deduction from equity upon Listing under the relevant accounting standard.

Our Directors would like to emphasise that the listing expenses stated above are the current estimation for reference purpose and the actual amount to be recognised is subject to adjustments based on audit and the then changes in variables and assumptions. Prospective investors should note that the financial performance of our Group for the year ended 31 December 2019 and the year ending 31 December 2020 would be affected by the listing expenses mentioned above.

DIVIDENDS

We did not declare any dividends during the three years ended 31 December 2018. Pursuant to the resolution of the shareholder meeting of Kidztech Intelligent held on 20 May 2019, dividends of approximately RMB101.4 million were approved by Kidztech Intelligent to its then shareholders. Such dividends were paid during the eight months ended 31 August 2019.

We currently do not have any plans for declaring dividends. We do not currently have a dividend payment plan or policy. Declaration of dividends is subject to the discretion of our Directors, depending on our results of operation, working capital and cash position, future business and earnings, capital requirements, contractual restrictions under our bank loan agreements, if any, as well as any other factors which our Directors may consider relevant. In addition, any declaration and payment as well as the amount of the dividends will be subject to the provisions of (i) our Articles, which provides that our Shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our Directors, and (ii) the applicable laws of the Cayman Islands, which provides that dividends may be paid out of the profits of a company or out of sums standing to the credit of its share premium account provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts due in the ordinary course of business. Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Company in the future. Any future declarations and payments of dividends will be at the discretion of our Directors subject to applicable laws. Under applicable PRC law, our subsidiary in the PRC may only distribute after-tax profits after it has made allocations or allowances for recovery of accumulated losses and allocations to the statutory reserves.

RECENT DEVELOPMENT

Based on our audited financial results for the eight months ended 31 August 2019 and our unaudited management accounts subsequent to 31 August 2019 and up to 31 December 2019, we recorded increase in both of the revenue and the gross profit for the year ended 31 December 2019. In particular, we recorded slight increase in the revenue from our smart toy vehicles, and a significant increase in the revenue from our traditional toys, as compared to the same period in 2018 based on our unaudited management accounts.

Subsequent to the Track Record Period and up to the Latest Practicable Date, we secured two new overseas customers that engage us in manufacturing on OEM basis, including a renowned Italian company that sells children's clothings and toys with retail outlets worldwide and renowned company based in the U.S. that develops and markets novelty and impulse toys under different brands. The value of the purchase orders placed by these two new overseas customers amounted to approximately HK$0.8 million and HK$2.5 million respectively during such period. We also entered into licensing agreements with two new renowned automobile manufacturers.

On 13 December 2019, the US and the PRC government officials announced that they have entered into a preliminary trade agreement, whereby the proposed US tariffs to be imposed on certain Chinese imported goods in the Fourth List, including toys, had been deferred. On 18 December 2019, at the direction of the president of the US, the US government determined to suspend indefinitely the imposition of the additional 15% ad valorem duty on certain Chinese imported goods in the Fourth List, including toys. Subsequently, on 15 January 2020, the US and the PRC government signed the phase one agreement aimed at easing the Sino-US trade war. Pursuant to such agreement, among others, US tariffs on approximately US$370 billion Chinese goods remain in place while avoiding the threat of further escalation. In addition, the US president said that the tariffs that remain would be removed pending progress on the second phase of negotiations. Accordingly, the imposition of proposed US tariff on toys exported from the PRC to the US shall continue to be suspended indefinitely, subject to further negotiation between the US and the PRC governments. On 6 February 2020, the Chinese officials announced that tariffs that the Chinese government imposed on some US goods since 1 September 2019 would be cut from 10% to 5%, and on others from 5% to 2.5%. Such reduction in tariffs has become effective since 14 February 2020, as Chinese officials' first response to the phase one agreement.

Beginning early 2020, the PRC and certain countries around the world encountered an outbreak of COVID-19, a highly contagious disease. As at the Latest Practicable Date, the PRC government has implemented various measures to combat against the outbreak of COVID-19 in the PRC, including but not limited to, temporary suspension of work in Shanghai, Suzhou, Guangdong Province, Zhejiang Province, Jiangsu Province and Yunnan Province with extension of the Lunar New Year holiday, quarantine order to restrict entry and exit of Wuhan, restriction of the number of individual and number of times leaving each household per day etc.. On 17 February 2020, the Guiding Opinion on Scientific Prevention and Control of Accurate Policy Division and Classification to prevent and control of the Novel Coronavirus Disease (《關於科學防治精准施策

分區分級做好新冠肺炎疫情防控工作的指導意見》) ("**Guiding Opinion**") was published by the Joint Prevention and Control Mechanism of the State Council (國務院聯防聯控機制). Under the Guiding Opinion, relevant government authorities at county level in the PRC are required to formulate specific measures to prevent and control the outbreak of COVID-19 in such area. With the strengthened policies to control the outbreak of COVID-19, it is anticipated that businesses and daily life of citizens can resumed to normal.

With the measures implemented by the PRC government and information currently available to our Directors, our Directors believe that the outbreak of COVID-19 shall not have a permanent impact on our Group and may only affect our Group temporarily. Based on the information currently available to us, we recorded a decrease in (i) net profit during the one month ended 31 January 2020, as compared to one month ended 31 January 2019; and (ii) revenue for the period from 1 January 2020 up to the Latest Practicable Date, as compared to the same period in 2019, since the government officials in Guangdong Province extended the Lunar New Year holiday in 2020 until 9 February 2020 due to the outbreak of COVID-19.

We have resumed operation in the PRC since 10 February 2020. As at the Latest Practicable Date, we have only resumed operation in the PRC for a short period of time, and our operation in the PRC is subject to further development of the outbreak of COVID-19 and government advice or restrictions. Accordingly, it is too early to gauge whether there will be an impact of any significance on our Group's operation at this stage.

Our Directors will continue to assess the impact of the COVID-19 on our Group's operation and financial performance and closely monitor our Group's exposure to the risks and uncertainties in connection with the epidemic. We will take appropriate measures as necessary and inform our Shareholders and potential investors as and when necessary. For further details, please refer to the sub-paragraph headed "The recent outbreak of the contagious COVID-19 in the PRC and worldwide may have a material adverse effect on our business, results of operation, financial condition and prospectus." under the paragraph headed "Risks relating to our business" under the section headed "Risk factors" and the paragraph headed "Potential impact of COVID-19 on our operation in the PRC" under the section headed "Business" in this prospectus.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

Please see the section "Unaudited pro forma financial information" in Appendix IIA to this prospectus for our unaudited pro forma adjusted consolidated net tangible assets.

NO MATERIAL ADVERSE CHANGE

There was no interruption in our business that may have or has had a significant effect on our financial position in the last 12 months. Except to the extent disclosed in the paragraph headed "Recent development" above and the listing expenses in connection with the Global Offering, our Directors confirm that there has been no material adverse change in our financial, operational or trading position since 31 August 2019 (being the date as of which our latest audited combined financial statements were prepared as set out in Appendix I to this prospectus) and up to the date of this prospectus.

PROFIT ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2019

Our Directors estimate that, on the bases set out in Appendix IIB to this prospectus, and in the absence of unforeseen circumstances, the estimated consolidated profit attributable to owners of our Company for the year ended 31 December 2019 as follows:

Estimated consolidated profit attributable to owners of our Company for the year ended 31 December 2019 *(Note 1)*	Not less than RMB33.0 million
Unaudited pro forma estimated earnings per Share for the year ended 31 December 2019 *(Note 2)*	Not less than RMB 0.063

Notes:

(1) The profit estimate, for which our Directors are solely responsible for, has been prepared by them based on (i) the audited combined results of our Group for the eight months ended 31 August 2019; and (ii) the unaudited consolidated results based on the management accounts of our Group for the four months ended 31 December 2019. The profit estimate has been prepared on a basis consistent in all material respects with the accounting policies normally adopted by our Company as set out in the Accountant's Report, the text of which is set out in Appendix I to this prospectus. When preparing the profit estimate which is based on the best estimate and belief of the Directors, our Directors have also considered the latest information currently available up to the Latest Practicable Date in respect of the circumstances as set out in the paragraph headed "Recent development" in this section above, including the Sino-US trade war and the outbreak of COVID-19.

(2) The unaudited pro forma estimated earnings per Share is calculated by dividing the estimated combined profit for the year ended 31 December 2019 attributable to owners of our Company by 520,000,000 Shares that had been assumed in issue for the year ended 31 December 2019, assuming that a total of 88,400,000 Shares under the Global Offering and 353,600,000 Shares under the Capitalisation Issue had been in issue as at 1 January 2019. The calculation of the estimated earnings per Share does not take into account any Shares which may be issued upon the exercise of the options which may be granted under the Share Option Scheme and any Shares which may be issued upon the exercise of the Adjustment Options or any Shares which may be granted and issued or repurchased by our Company pursuant to the general mandate to issue Shares and the general mandate to repurchase Shares.

FUTURE PLANS

Please see the paragraph headed "Business strategies" under the section headed "Business" in this prospectus for a detailed description of our future plans.

REASONS FOR LISTING

Our Directors believe that Listing enables our Group to enjoy various benefits as summarised below which not only enable our Group to achieve our business objectives, but also facilitate our future development:

(i) Potential market growth and implementation of strategies

The net proceeds from the Global Offering provide our Group with financial resources to implement our business plans which in turn drive the growth of our business. According to the CIC Report, the market size of the global smart toy industry, in particular smart toy vehicles, will continue to increase from approximately US$28.5 billion in 2018 to approximately US$36.4 billion in 2023. Our Directors believe that through, among others, expanding our current production capacity and diversifying our product offerings with continuous development of new products and global licensing strategy, our Group will benefit from capturing market growth and business opportunities.

(ii) Satisfying our genuine funding needs for the implementation of our future plans

Our principal sources of funds have historically been our equity capital, cash generated from our operations and borrowings. During the eight months ended 31 August 2018, we experienced net cash used in operating activities of approximately RMB66.7 million. As at 31 August 2019, we had net current assets of approximately RMB92.3 million (including cash and cash equivalents of approximately RMB109.7 million). Approximately RMB50.3 million of the cash and cash equivalents as at 31 August 2019 is reserved for capital expenditure to be incurred prior to Listing. In addition, based on the current scale of our operations and costs incurred by us for the year ended 31 December 2018 and the eight months ended 31 August 2019, based on the current information available our Directors estimate that currently we have to incur an average monthly expense of approximately RMB24.7 million, primarily comprising royalty fee, staff costs, material costs, other administrative and operating expenses for our daily operations for the year ending 31 December 2020. Further, although it is one of our strategies to maintain and strengthen relationship with our existing overseas customers, there is no assurance that our customers would not adversely affect us should there be any developments adverse to them. During the Track Record Period, we wrote off approximately RMB4.4 million owed by the Renowned Toy Specialty Retailer US and the Renowned Toy Specialty Retailer Netherlands to us. In light of the foregoing, our Directors consider that if we solely rely on future cash flows generated from our operating activities for financing our business strategies, it will be difficult for us to formulate a comprehensive schedule for our expansion plans, since our plan will be largely subject to uncertainties in relation to the timing of generating sufficient cash from our operations. Further, we may be required to modify our expansion plans from time to time depending on the amount of cash generated from our operations. As a result, we would have less control over the timing of implementing our business strategies, and may fail to fully capture the forecast increase in global demand for smart toys.

Besides, our Directors are of the view that it would probably create material adverse impact to our financial performance and liquidity if we choose to implement the entire expansion plan solely with debt financing and our internal resources. As at 31 December 2016, 2017 and 2018 and 31 August 2019, our repayment obligation including that of bank and other borrowings and obligation under finance leases amounted to approximately RMB53.8 million, RMB96.7 million, RMB145.2 million and RMB140.7 million, respectively. As at 31 December 2019, our bank and other borrowings, and obligation under finance lease amounted to approximately RMB146.6 million and our gearing ratio was approximately 48.4%. We are subject to repayment obligations for the principal amount and interest expenses in relation to our bank and other borrowings. Our Directors consider that our interest expenses may adversely affect our financial performance and our liquidity position. Further, our Directors consider that financial institutions generally evaluate our financial performance as a whole and therefore our debt financing capacity is heavily limited by our liquidity position regardless of the nature of our liabilities. As at 31 December 2019, we had aggregate banking facilities of approximately RMB119.0 million, of which approximately RMB26.5 million was unutilised.

Our Directors have further examined in detail the viability of implementing our expansion plans solely with debt financing and internal resources. Having taken into account, among others, (i) our expansion plans, including, among others, expand our production capacity through construction of the New Production Plant and purchase of new machinery and equipment, as set out under the paragraph headed "Business strategies" under the section headed "Business" in this prospectus; (ii) the estimated upcoming upfront cost requirements as set out under the paragraph headed "Business strategies" under the section headed "Business" in this prospectus; and (iii) our operational costs going forward which will increase along with our expansion plan, our Directors estimated that if we decide to implement the expansion plans without the additional funding from Listing, our financial resources as well as our existing banking facilities will not be sufficient to support our expansion plans, not to mention any unexpected adverse changes to our business operation or financial position. Accordingly, our Directors consider that it is not commercially justifiable for us to implement the expansion plan solely with debt financing and internal resources.

(iii) Enhance our Group's corporate profile, brand awareness and competitiveness

Our Directors consider that Hong Kong is an international financial centre and the stock market in Hong Kong is well established and highly recognised internationally. It is expected that customers, in particular reputable licensors, comprehensive retailers, comprehensive toy specialty retailers, and licensors would tend to give preference to toy manufacturers who have a listing status with good reputation, transparent financial disclosure and regulatory supervision. As such, our Directors are of the view that Listing in Hong Kong will enhance our corporate profile and recognition and reinforce our brand awareness and image, which may assist us to further develop our customer base and licensor base.

We strive to achieve high standards of corporate governance and to promote transparency when our Company is listed on the Stock Exchange. With more exposure, higher corporate transparency and higher level of public scrutiny, we believe our Group can deliver greater assurance and credibility to all our existing and potential business partners, customer and suppliers, hence become more competitive in the industry in attracting more business opportunities.

(iv) Enhance our Group's market status amongst existing and potential licensors, customers and suppliers, and employees

Our Directors believe that a listing status will enhance our credibility with our business partners. Thus, our position would be more favourable when negotiating cooperation arrangements with both existing and potential licensors. With such status, our Group will be able to obtain more licensed intellectual properties and expand our product offerings and, thus, differentiated ourselves from other competitors.

Our Directors expect that customers and suppliers in general would tend to give preference to toy manufacturers who have a public listing with good reputation, transparent financial disclosure and regulatory supervision. Our Directors therefore believe that Listing is the key strategy for us to enhance our level of competitiveness among other toy manufacturers in the PRC.

We believe that a listing status will create a higher level of job security for our employee, hence strengthening their morale at work and our ability to retain our staff. We believe that a loyal team of well-trained and experienced workforce will improve efficiency of our day-to-day operations to the benefit of our long-term development and competitiveness. Moreover, we believe that a listing status will increase our ability to attract experienced personnel to join our Group, which is favourable to our future expansion.

(v) Enhance capital market accessibility and ease of raising funds in capital market

Whilst our Group was able to expand our business using funds generated from operations and borrowings during the Track Record Period and had been able to repay loans when they fell due in the past, our Group plans to seek equity financing as it would reduce our reliance on bank loans. Our Directors believe that our Group will be open to more financing options for future growth through access to capital markets after Listing. Following Listing, we will have the option to raise additional funds through the issuance of equity and/or debt securities and apply such funds on our expansion plans. On the other hand, we believe a listed status will strengthen our position in negotiating and may enable us to obtain more favourable terms with our business partners, suppliers, banks and financing institutions. Furthermore, with the option of equity financing, our Group will be able to maintain a lower gearing level, which will reduce our leverage, and enhance our capital structure. Our Directors also believe that the use of equity financing would reduce our interest expenses relative to relying on debt financing. Upon Listing, we believe our shareholder base will be more diversified which we may tap into for further funding needs. With greater flexibility in fund-raising, our Group will have more flexibility in obtaining capital and fund for our developments in order to cater our financing need from time to time.

(vi) Benefits of choosing the Hong Kong stock market as the listing venue

Our Directors had considered and evaluated different listing venues. We were listed on the NEEQ between 2016 and 2019. Based on our Group's business development plans and desire to attain greater success to international investors and markets, our Directors are of the view that, Hong Kong is a more suitable venue to pursue listing, after taking into account the liquidity of the stock market, level of internationalism, sound legal system and regulatory framework, mature financial system, reputation in the global financial market, established international institutional investor base, volume and liquidity of funds and capital available for investment in the equity market in Hong Kong.

USE OF PROCEEDS

The table below sets out the estimated net proceeds of the Global Offering which we will receive after deduction of the underwriting fees and commissions and other estimated expenses in connection with the Global Offering:

	Estimated net proceeds assuming the Adjustment Options are not exercised	**Estimated net proceeds assuming either the Offer Size Adjustment Option or the Over-allotment Option is exercised**
If the Offer Price is fixed at HK$1.32 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus)	Approximately HK$76.1 million	Approximately HK$92.9 million
If the Offer Price is fixed at HK$1.47 per Offer Share (being the high end of the Offer Price range stated in this prospectus)	Approximately HK$88.8 million	Approximately HK$107.5 million
If the Offer Price is fixed at HK$1.17 per Offer Share (being the low of the Offer Price range stated in this prospectus)	Approximately HK$63.4 million	Approximately HK$78.3 million
If the Offer Price is fixed at HK$1.05 per Offer Share, upon making a full Downward Offer Price Adjustment	Approximately HK$53.4 million	Approximately HK$66.9 million

We intend to use the net proceeds of the Global Offering, after deducting related underwriting fees and commissions and estimated expenses payable in connection with the Global Offering and assuming that the Adjustment Options are not exercised and an Offer Price of HK$1.32 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), of approximately HK$76.1 million for the following purposes:

- approximately 70.8%, or HK$53.9 million, will be used to fund the Planned Expansion, the intended allocation of this portion of the use of proceeds is primarily as follows:

Intended applications	Approximate % of use of proceeds
(a) as capital expenditure for construction of the New Production Plant;	19.1%, or HK$14.5 million
(b) for acquiring more machinery and equipment for manufacturing toy products;	31.4%, or HK$23.9 million
(c) for acquiring more machinery and equipment and recruiting more staff for product design, research and development; and	6.4%, or HK$4.9 million
(d) for expanding our production department after completion of construction of the New Production Plant, through recruiting approximately 300 production staff in 2020.	13.9%, or HK$10.6 million

For further details, please refer to the sub-paragraphs headed “Expand our production capacity and improve our production efficiency” and “Diversify our product offerings through continuous development of new products and global licensing strategy” under the paragraph headed “Business strategies” under the section headed “Business” in this prospectus;

- approximately 19.2%, or HK$14.6 million, will be used to maintain and strengthen our relationships with existing customers, in particular overseas customers, expand and diversify our customer base, and acquire or invest in downstream companies, the intended allocation of this portion of the use of proceeds is primarily as follows:

Intended applications	Approximate % of use of proceeds
(a) attend more overseas toy fairs which are participated by manufacturers, suppliers and customers from different countries, establishing one more showroom in Hong Kong and expanding our sales and marketing departments in both Hong Kong and the PRC, through recruiting six and five experienced additional sales staff with at least three years of experience in selling toys in Hong Kong and the PRC respectively, in 2020;	4.2%, or HK$3.2 million
(b) acquire or invest in downstream companies, including but not limited to wholesalers with established sales network in the target region, after taking into account factors including their geographical locations, sales network, whether they complement our operations, product design and development etc.. As at the Latest Practicable Date, we had not identified any suitable target for such potential acquisition or opportunities.	15.0%, or HK$11.4 million

  For further details, please refer to the sub-paragraphs headed "Continue to prioritise and focus on overseas market by (i) maintaining and strengthening relationship with our existing direct overseas customers; and (ii) expanding our customer base." and "Continue to strengthen, expand and diversify our customer base by focusing on (i) PRC Export-Oriented Wholesalers; and (ii) PRC retailers." under the paragraph headed "Business strategies" under the section headed "Business" in this prospectus; and

- approximately 10.0%, or HK$7.6 million, will be used for general replenishment of working capital and other general corporate purpose.

Implementation timeline

The following table sets out a detailed breakdown of the use of proceeds for the aforesaid plans to be applied during the two years ending 31 December 2021:

			For the year ending 31 December 2020	For the year ending 31 December 2021	Total amount to be funded by net proceeds from the Global Offering	Total % of net proceeds
			HK$ million	*HK$ million*	*HK$ million*	*%*
1.	Fund the Planned Expansion:					
	(a)	Capital expenditure for construction of the New Production Plant *(Note 1)*	11.8	2.7	14.5	19.1
	(b)	Acquisition of more machinery and equipment for manufacturing toy products *(Note 2)*	18.0	5.9	23.9	31.4
	(c)	Acquisition of more machinery and equipment and recruiting more staff for product design, research and development *(Note 3)*	3.7	1.2	4.9	6.4
	(d)	Labour costs for manufacturing toy products after completion of construction of the New Production Plant *(Note 4)*	3.7	6.9	10.6	13.9
2.	Maintain and strengthen our relationships with existing customers, in particular overseas customers, expand and diversify our customer base and acquire or invest in downstream companies					
	(a)	Attending more overseas toy fairs, establishment of one more showroom in Hong Kong and expansion of our sales and marketing department in both Hong Kong and the PRC *(Note 5)*	0.9	2.3	3.2	4.2
	(b)	Acquire or invest in downstream companies with established sales network in the target region	—	11.4	11.4	15.0
3.	General working capital		7.6	—	7.6	10.0
Total:			45.7	30.4	76.1	100.0

Notes:

1. Total capital expenditure for construction of the New Production Plant is expected to be approximately HK$144.5 million (equivalent to approximately RMB130.1 million), of which approximately HK$89.8 million (equivalent to approximately RMB80.8 million) has been paid by our Group's internal resources during the Track Record Period. For the remaining amount, approximately HK$14.5 million (equivalent to approximately RMB13.1 million) will be paid from the net proceeds from the Global Offering. Approximately HK$36.1 million (equivalent to approximately RMB32.5 million) and approximately HK$4.1 million (equivalent to approximately RMB3.7 million) will be paid during the two years ending 31 December 2021 by our Group's internal resources, respectively. Capital expenditure to be paid during the year ending 31 December 2021 mainly represents the retention payable in relation to the construction cost.

2. Total expenditure for acquisition of machinery and equipment is expected to be approximately HK$68.9 million (equivalent to approximately RMB62.0 million), of which approximately HK$8.0 million (equivalent to approximately RMB7.2 million) as deposit of machinery and equipment has been paid in December 2019 by our Group's internal resources, and the remaining amount of approximately HK$23.9 million (equivalent to approximately RMB21.5 million) will be paid from the net proceeds from the Global Offering. Expenditure for acquisition of machinery and equipment to be paid during the year ending 31 December 2021 mainly represent the acquisition of moulds from time to time during the year.

3. With reference to the salary during the Track Record Period, the expected monthly remuneration of design, research and development staff would be approximately RMB15,000.

4. With reference to the salary during the Track Record Period, the expected monthly remuneration of production staff would be approximately RMB3,800.

5. With reference to the salary during the Track Record Period, the expected monthly remuneration of sales staff in Hong Kong would be approximately HK$30,000, while the expected monthly remuneration of sales staff in the PRC would be approximately RMB10,000.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds into short-term demand deposits and/or money market instruments. We will issue an appropriate announcement if there is any material change in the abovementioned use of proceeds.

The above allocation of proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the mid-point of the estimated Offer Price range.

If the Offer Price is fixed at the high-end of the indicative Offer Price range, being HK$1.47 per Share, and assuming that the Adjustment Options are not exercised at all, the net proceeds we receive from the Global Offering will increase by approximately HK$12.7 million. If the Offer Price is set at the low-end of the indicative Offer Price range, being HK$1.17 per Share, and assuming that the Adjustment Options are not exercised at all, the net proceeds we receive from the Global Offering will decrease by approximately HK$12.7 million.

In the event that we receive net proceeds from the Global Offering higher or lower than the estimated amount stated above (including where we make a Downward Offer Price Adjustment to set the Offer Price at HK$1.05 per Offer Share upon making a full Downward Offer Price Adjustment), we will increase or decrease the intended use of the net proceeds for the above purposes on a pro rata basis. If we make a Downward Offer Price Adjustment to set the final Offer Price at HK$1.05 per Offer Share, the estimated net proceeds we will receive from the Global Offering will be further reduced to approximately HK$53.4 million.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds into short-term demand deposits and/or money market instruments. We will issue an appropriate announcement if there is any material change in the abovementioned use of proceeds.

UNDERWRITERS

Hong Kong Underwriters

CMBC Securities Company Limited
CEB International Capital Corporation Limited
BOCOM International Securities Limited
Haitong International Securities Company Limited
Shanxi Securities International Limited
Elstone Securities Limited
China Tonghai Securities Limited
GLAM Capital Limited
Maxa Capital Limited
Ever-Long Securities Company Limited
Livermore Holdings Limited
Hung Sing Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting arrangements

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters and the International Offering is expected to be fully underwritten by the International Underwriters on a several basis and subject to agreement on pricing of the Offer Shares between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us. The Hong Kong Underwriting Agreement was entered into on 27 February 2020 and in connection with the International Offering, our Company expects to enter into the International Underwriting Agreement with, among others, the International Underwriters. The Hong Kong Underwriting Agreement is conditional upon (among other things) the International Underwriting Agreement being entered into, and the respective Underwriting Agreements are expected to be inter-conditional.

Hong Kong Underwriting Agreement

Under the Hong Kong Underwriting Agreement, we have agreed to offer the Hong Kong Offer Shares to the public in Hong Kong for subscription on and subject to the terms and conditions of this prospectus and the Application Forms.

Pursuant to the Hong Kong Underwriting Agreement, and conditional upon, *inter alia*, the Listing Committee granting or agreeing to grant the listing of, and permission to deal in, our Shares, in issue and to be issued as mentioned in this prospectus (including but not limited to our Shares to be issued pursuant to the exercise of any of the Adjustment Options) (subject only to allotment and/or despatch of Share certificates for the Offer Shares and/or such other conditions as may be imposed by the Stock Exchange) and certain other conditions including the Offer Price being determined by our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the entering into of the International Underwriting Agreement and the Price Determination Agreement on or before the Price Determination Date and such agreements not being subsequently having been terminated, the Hong Kong Underwriters have agreed to subscribe for, or procure subscribers to subscribe for, the Hong Kong Offer Shares which are not taken up under the Hong Kong Public Offering on the terms and conditions of the Hong Kong Underwriting Agreement, this prospectus and the Application Forms.

Grounds for termination

The Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) is entitled to terminate the Hong Kong Underwriting Agreement by giving written notice before 8:00 a.m. (Hong Kong time) on the Listing Date ("**Termination Time**") to our Company if any of the following events shall occur prior to the Termination Time:

(a) there comes to the notice of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) of any matter or event showing any of the representations, warranties or undertakings contained in the Hong Kong Underwriting Agreement given by our Company or any of the executive Directors and the Controlling Shareholders to be untrue, inaccurate or misleading in any respect when given or repeated or there has been a breach of any of the warranties or any other obligations imposed on any party to the Hong Kong Underwriting Agreement (other than those undertaken by the Hong Kong Underwriters, the Sole Sponsor and/or the Sole Global Coordinator) which, in any such cases, is considered, in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), to be material and adverse in the context of the Global Offering; or

(b) any statement contained in this prospectus has become or been discovered to be untrue, incorrect or misleading in any material respect (and result in a material misstatement in this prospectus); or

(c) any matter which, had it arisen or been discovered immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted, in the sole and reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), a material omission in the context of the Global Offering; or

(d) any event, act or omission which gives rise to any material liability of our Company or any of the executive Directors and the Controlling Shareholders arising out of or in connection with any representations, warranties or undertakings contained in the Hong Kong Underwriting Agreement; or

(e) the International Underwriting Agreement is terminated pursuant to its terms; or

(f) there shall have developed, occurred, existed or come into force or effect:

    (i) any new law or regulation or any material change in existing laws or regulations or any material change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the PRC, or any other jurisdiction relevant to our Group (the "**Relevant Jurisdictions**"); or

(ii) any change in, or any event or series of events or development resulting in any material change in the local, national, regional or international financial, currency or stock market conditions or prospects, or political, military, industrial or economic conditions or prospects in the Relevant Jurisdictions; or

(iii) any material adverse change in the conditions of Hong Kong, the U.S., the PRC or international equity securities or other financial markets; or

(iv) the imposition of any moratorium, suspension or restriction on trading in securities generally on any of the markets operated by the Stock Exchange due to exceptional financial circumstances or otherwise; or

(v) any change in taxation or exchange control (or the implementation of any exchange control) in the Relevant Jurisdictions adversely affecting an investment in the Shares; or

(vi) any material adverse change in the business or in the financial or trading position or prospects of any member of our Group; or

(vii) the imposition of economic sanction or withdrawal of trading privileges, in whatever form, by the U.S., the European Union (or any member thereof), the United Nations on Hong Kong, or the PRC that will materially and adversely affect the business of our Group; or

(viii) a general moratorium on commercial banking activities in the PRC or Hong Kong declared by the relevant authorities; or

(ix) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, outbreak of an infectious disease, calamity, crisis, terrorism, strike or lock-out (whether or not covered by insurance) that would or might have a material adverse effect on any member of our Group;

which, in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) acting in good faith:

(aa) is or will be material and adverse to the business, financial or trading condition or prospects of our Group; or

(bb) has or will have a material adverse effect on the success of the Global Offering; or

(cc) makes it materially impracticable or inadvisable or inexpedient to proceed with the Global Offering.

For the above purpose, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the U.S. or any change of the value of Hong Kong currency under such system shall be taken as an event resulting in a change in currency conditions.

Undertakings

Undertakings under the Hong Kong Underwriting Agreement

Under the Hong Kong Underwriting Agreement, our Company has undertaken to and covenanted with the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) (such consent not to be unreasonably withheld, conditioned or delayed) and subject always to the requirements of the Stock Exchange, save for the Offer Shares, the Capitalisation Issue, the grant of the Adjustment Options, the Offer Size Adjustment Shares upon the exercise of the Offer Size Adjustment Option or the Over-allotment Shares upon the exercise of the Over-allotment Option, any Shares which may fall to be issued by way of scrip dividend schemes or similar arrangements in accordance with the Memorandum and Articles of Association or any consolidation, sub-division or capital reduction of the Shares, our Company shall not:

(a) allot and issue, accept subscriptions for, offer, sell or contract to sell, grant or agree to grant any option or other right in, directly or indirectly, conditionally or unconditionally, any shares, warrants or other convertible or exchangeable securities carrying the right to subscribe for or exchangeable into shares or other securities of our Company or offer or agree to do any of the foregoing or announce any intention to do so at any time during the period commencing from the date by reference to which disclosure of the shareholding of our Controlling Shareholders is made in this prospectus and ending on the date which is six months from the Listing Date (the "**First Lock-up Period**"); or

(b) at any time during the First Lock-up Period, subject to the Listing Rules and the Takeovers Codes, make or agree to make any repurchase of Shares or other securities of our Company.

In the event of an issue or disposal of any Shares or any interest therein at any time during the six months commencing on the date which the First Lock-up Period expires (the "**Second Lock-up Period**"), our Company shall take all reasonable steps to ensure we will not create disorderly or false market in the Shares or any other securities of our Company.

Under the Hong Kong Underwriting Agreement, each of our Controlling Shareholders has jointly and severally undertaken to us, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that, save as (i) pursuant to the Global Offering or the Stock Borrowing Agreement; or (ii) permitted under the Listing Rules:

(a) he/she/it shall not, and shall procure that none of his/her/its associates or any company controlled by him/it or any of his/her/its associates, nominees or trustees holding in trust for him/she/it will, at any time during the First Lock-up Period, sell, transfer or otherwise dispose of (other than by way of a security for a bona fide commercial loan in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong (the "**Banking Ordinance**")), or enter into any agreement (other than by way of a security for a bona fide commercial loan in favour of an authorised institution (as defined in the Banking Ordinance)) to sell, transfer or dispose of, or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares (or any interest therein) directly or indirectly owned by him/her/it or in which he/she/it is, directly or indirectly, interested immediately after completion of the Global Offering and the Capitalisation Issue or any interest in any shares in any company controlled by him/her/it which is the beneficial owner of any of these Shares, or enter into any swap or other arrangements that transfer the economic consequences of ownership of such Shares or interest, whether any of the foregoing transactions or arrangement is to be settled by delivery of such Shares or other securities, in cash or otherwise, or offer or agree to do any of the foregoing or announce any intention to do so, provided that the foregoing restriction shall not apply to any Shares which any of them may acquire or become interested in following the Listing Date (save any Shares returned under the Stock Borrowing Agreement) provided further that any such acquisition would not result in any breach of Rule 8.08 of the Listing Rules;

(b) each of our Controlling Shareholders shall not, and shall procure that none of his/her/its associates or any company controlled by him/her/it or any of his/her/its associates, nominees or trustees holding in trust for him/her/it will, at any time during the Second Lock-up Period, sell, transfer or otherwise dispose of (other than by way of a security for a bona fide commercial loan in favour of an authorised institution (as defined in the Banking Ordinance), or enter into any agreement (other than by way of a security for a bona fide commercial loan in favour of an authorised institution (as defined in the Banking Ordinance)) to sell, transfer or dispose of, or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares (or any interest therein) directly or indirectly owned by him/her/it or in which he/she/it is, directly or indirectly, interested immediately after completion of the Global Offering and the Capitalisation Issue or any interest in any shares in any company controlled by him/her/it which is the beneficial owner of any of these Shares, or announce any intention to do so, if, immediately following such action, our Controlling Shareholders, when taken together, would cease to be a group of controlling shareholders (as defined in the Listing Rules) of our Company; and

(c) without prejudice to the undertakings as referred to in paragraphs (a) and (b) above, during the period commencing on the date by reference to which disclosure of his/her/its direct or indirect shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, he/she/it shall:

    (i) when he/she/it pledges or charges or otherwise create any rights of encumbrances over any Shares or other securities of our Company or those of each of our Controlling Shareholders beneficially owned by him/her/it in favour of an authorised institution (as defined in the Banking Ordinance) pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform us, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) 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 requested by us, the Sole Sponsor and/or the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters); and

(ii) subsequent to the pledge or charge or creation of rights or encumbrances over our Shares (or interest therein) or other shares or interests as mentioned in sub-paragraph (i) above, when he/she/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 us of such indications, and inform the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) as soon as practicable thereafter (taking into account the requirements of applicable laws, rules and regulations) of such indications.

Undertakings to the Stock Exchange pursuant to the Listing Rules

Under Rule 10.08 of the Listing Rules, 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 within six months from the Listing Date (whether or not such an issue of Shares or our securities will be completed within six months from the Listing Date), except in certain circumstances as prescribed by Rule 10.08 of the Listing Rules.

Under Rule 10.07(1) of the Listing Rules, our Controlling Shareholders shall not, and procure that the relevant registered holder(s) shall not:

(a) during the First Lock-up Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or our securities in respect of which they are shown by this prospectus to be the beneficial owners; or

(b) at any time during the Second Lock-up Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, our Controlling Shareholders would cease to be our Controlling Shareholder (as defined in the Listing Rules).

In accordance with Note (3) to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has also undertaken to us and the Stock Exchange that, within the period commencing on the date by reference to which disclosure of his/her/its shareholding in our Company is made in this prospectus and ending on the date which is the 12 months from the Listing Date, he/she/it will:

(1) when he/she/it pledges or charges any securities of our Company beneficially owned by him/her/it in favour of an authorised institution pursuant to Note (2) to Rule 10.07 (2) of the Listing Rules, immediately inform us of such pledge or charge together with the number of securities so pledged or charged; and

(2) when he/she/it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities of our Company will be disposed of, immediately inform us of such indications.

Under Note (3) to Rule 10.07 (2) of the Listing Rules, we are required to inform the Stock Exchange as soon as we have been informed of the matters referred to in (1) or (2) above by any of our Controlling Shareholders and disclose such matters by way of an announcement in compliance with the Listing Rules.

International Underwriting Agreement

In connection with the International Offering, it is expected that our Company, executive Directors and our Controlling Shareholders will enter into the International Underwriting Agreement with, among others, the Sole Sponsor, the Sole Global Coordinator and the International Underwriters on or before the Price Determination Date. It is expected that under the International Underwriting Agreement, the International Underwriters will, subject to certain conditions set out therein, severally agree to subscribe or procure subscribers to subscribe for the International Offer Shares to be initially being offered under the International Offering (subject to readjustment) on and subject to the terms of the International Underwriting Agreement. The International Underwriting Agreement is expected to contain force majeure provisions as that contained in the Hong Kong Underwriting Agreement as mentioned above. In the event that the International Underwriting Agreement is not entered into on or around the Price Determination Date, or does not become unconditional or is terminated in accordance with its terms, the Global Offering will not proceed and will lapse.

It is expected that under the International Underwriting Agreement, our Company will grant the Offer Size Adjustment Option to the International Underwriters, exercisable at the sole discretion of the Sole Global Coordinator (for itself and on behalf of the International Underwriters) to require our Company at any time from the date of the International Underwriting Agreement up to 5:00 p.m. on the business day immediately before the date of the announcement of the results of allocations and the basis of allocation of the Hong Kong Offer Shares, to allot and issue up to an aggregate of 13,260,000 additional new Shares, representing 15% of the Offer Shares initially being offered under the Global Offering, to cover any excess demand in the International Offering.

It is also expected that under the International Underwriting Agreement, our Company will grant the Over-allotment Option to the International Underwriters, exercisable at the sole discretion of the Sole Global Coordinator (for itself and on behalf of the International Underwriters) to require our Company at any time within a period commencing from the Listing Date and ending on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering, to allot and issue up to an aggregate of 13,260,000 additional new Shares, representing 15% of the Offer Shares initially being offered under the Global Offering, on the same terms as those applicable to the Global Offering, to cover over-allocations in the International Offering.

Commission and expenses

Pursuant to the terms of the Hong Kong Underwriting Agreement, our Company has agreed to pay to the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), an underwriting commission of 4.0% of the aggregate final Offer Price payable for the Hong Kong Offer Shares (excluding any International Offer Shares reallocated to the Hong Kong Public Offering and any Hong Kong Offer Shares reallocated to the International Offering), whereby the respective entitlements of the Hong Kong Underwriters to the underwriting commission will be paid as agreed and determined in the International Underwriting Agreement. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriters. Assuming the Adjustment Options are not exercised, based on an Offer Price of HK$1.32 (being the mid-point of the Offer Price range of HK$1.17 per Offer Share and HK$1.47 per Offer Share), such underwriting commission and fees, together with the Stock Exchange listing fee, legal and other professional fees, applicable printing and other reasonable and proper expenses relating to the Global Offering are estimated to be about RMB36.5 million in total and are payable by our Company.

Underwriters' interests in our Company

Save for their respective obligations and interests under the Underwriting Agreements as disclosed above and the appointment of the Sole Sponsor as compliance advisor of our Company, none of the Underwriters has any shareholding interest in our Company or any member of our Group or has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group nor any interest in the Global Offering.

Minimum Public Float

Our Directors and the Sole Global Coordinator will ensure that there will be a minimum of 25% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Global Offering.

Sole Sponsor's independence

The Sole Sponsor satisfies the independence criteria applicable to sponsor as set out in Rule 3A.07 of the Listing Rules.

DETERMINING THE OFFER PRICE

The Offer Price is expected to be fixed by the Price Determination Agreement to be entered into between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on or before the Price Determination Date, which is currently scheduled on or around Monday, 9 March 2020 or such later date as the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company mutually agree but in any event no later than on Monday, 16 March 2020. **If, for any reason, the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price by Monday, 16 March 2020, the Global Offering will not become unconditional and will lapse.**

Prospective investors should be aware that the Offer Price to be determined on or before the Price Determination Date may be, but is not expected to be, lower than the Offer Price range as stated in this prospectus. The Offer Price will not be more than HK$1.47 per Offer Share and is expected to be not less than HK$1.17 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the bottom end of the Offer Price range (i.e. HK$1.17 per Offer Share) stated in this prospectus (subject to a Downward Offer Price Adjustment).

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, where considered appropriate, based on the level of interests expressed by prospective professional, institutional and other investors during a book-building process, and with the prior consent of our Company, reduce the indicative Offer Price range and/or the number of Offer Share below as stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notice of such a change. Upon issue of such a notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon with our Company, will be fixed within such revised Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Global Offering statistics as currently set out in the section headed "Summary" of this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any notice being published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) of a reduction in the Offer Price range as stated in this prospectus on or before the morning of the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, if agreed upon with our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus. Before submitting applications for Hong Kong 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 the day which is the last day for lodging applications under the Hong Kong Public Offering.

In the event of a reduction in the number of Offer Shares being offered under the Global Offering, the Sole Global Coordinator may, at its discretion, reallocate the number of Offer Shares to be offered under the Global Offering, provided that the number of Hong Kong Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering. The Hong Kong Offer Shares to be offered under the Hong Kong Public Offering and the International Offer Shares to be offered under the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Sole Global Coordinator.

Announcement of Offer Price reduction

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective investors during the book-building process, and with the prior consent of our Company, determine the final Offer Price to be no more than 10% below HK$1.17 (bottom end of the indicative Offer Price range), at any time on or prior to the Price Determination Date. In such situation, our Company will, as soon as practicable following the decision to set the final Offer Price below HK$1.17 (bottom end of the indicative Offer Price range), publish on the website of the Stock Exchange at **www.hkexnews.hk** and our Company's website at **www.kidztech.net** an announcement of the final Offer Price after making a Downward Offer Price Adjustment. Such announcement will be issued before and separate from the announcement of the results of allocations expected to be announced on Tuesday, 17 March 2020. The Offer Price announced following making of a Downward Offer Price Adjustment shall be the final Offer Price and shall not be subsequently changed. In the absence of an announcement that a Downward Offer Price Adjustment has been made, the final Offer Price will not be outside the indicative Offer Price range as disclosed in this prospectus unless the Withdrawal Mechanism is utilised.

Announcement of final Offer Price

Irrespective of whether a Downward Offer Price Adjustment is made, we expect to announce the final Offer Price, the level of indication of interests under the International Offering and the basis of allotment of the Hong Kong Offer Shares under the Hong Kong Public Offering on or before Tuesday, 17 March 2020 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on our Company's website at **www.kidztech.net** and the website of the Stock Exchange at **www.hkexnews.hk**.

Results of allocations in the Hong Kong Public Offering, including the Hong Kong identity card/passport/Hong Kong business registration certificate numbers of successful applicants (where supplied) and the number of Offer Shares successfully applied for under **WHITE** or **YELLOW** Application Forms or by giving electronic application instructions to HKSCC via CCASS or by applying through **HK eIPO White Form** service are expected to be made available as described under the paragraph headed "11. Publication of results" under the section headed "How to apply for the Hong Kong Offer Shares" of this prospectus.

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK$1.47 per Offer Share and is expected to be not less than HK$1.17 per Offer Share, subject to a Downward Offer Price Adjustment. Applicants under the Hong Kong Public Offering should pay, on application, the maximum price of HK$1.47 per Offer Share plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.0027% SFC transaction levy, amounting to a total of HK$2,969.63 per board lot of 2,000 Offer Shares.

If the Offer Price, as finally determined in the manner described above, is lower than the maximum price of HK$1.47 per Offer Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application monies) will be made to applicants, without interest. Further details are set out in the section headed "How to apply for the Hong Kong Offer Shares" in this prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares is conditional upon the satisfaction of all of the following conditions:

1. Listing

The Listing Committee granting the approval of the listing of, and permission to deal in, the Shares in issue and the Shares to be issued pursuant to the Global Offering and Shares which fall to be allotted and issued upon the exercise of any of the Adjustment Options (and such listing and permission not subsequently being revoked prior to the commencement of dealings in the Shares on the Stock Exchange).

2. Underwriting Agreements

The entering into of the International Underwriting Agreement between, among others, our Company and the International Underwriters, and the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, among other things, the Offer Price be agreed by no later than the Price Determination Date and the Price Determination Agreement has been duly entered into, and if relevant, as a result of the waiver of any conditions given by the Sole Global Coordinator (for itself and on behalf of the Underwriters)), and not being terminated in accordance with its terms or otherwise. Details of the Hong Kong Underwriting Agreement and grounds for termination are set out in the section headed "Underwriting" in this prospectus. If for any reason, the International Underwriting Agreement and the Price Determination Agreement are not entered into, the Global Offering will not proceed. If these conditions are not fulfilled on or before the time and date specified in the Underwriting Agreements or such later date as the Sole Global Coordinator (for itself and on behalf of the Underwriters) may in its reasonable discretion determine, the Global Offering will lapse and your application money will be refunded to you, without interest, and by post at your own risk. The terms on which your application money will be returned to you are set out under the paragraph headed "Refund of your money" in the relevant Application Forms.

In the meantime, your application money will be held in one or more separate bank accounts with the receiving banker other bank(s) licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

THE GLOBAL OFFERING

The Global Offering comprises the International Offering and the Hong Kong Public Offering. A total of 88,400,000 Shares will initially be made available under the Global Offering, of which 79,560,000 Shares, representing 90% of the total number of Shares initially being offered under the Global Offering, will initially be offered for subscription under the International Offering. The remaining 8,840,000 Shares, representing 10% of the total number of Shares initially being offered under the Global Offering, will initially be offered for subscription under the Hong Kong Public Offering. The number of Shares offered for subscription under the International Offering and the Hong Kong Public Offering will be subject to readjustment on the basis described below and the number of Shares offered for subscription under the International Offering will also be subject to the exercise of any of the Adjustment Options below. No pre-emption right or right to subscribe for the Offer Shares has been granted.

THE INTERNATIONAL OFFERING

Our Company is initially offering, at the Offer Price, 79,560,000 Shares (subject to readjustment as mentioned in the paragraph headed "Readjustment of Offer Shares between the Hong Kong Public Offering and the International Offering" below), representing 90% of the total number of Shares being initially offered under the Global Offering (before the exercise of any of the Adjustment Options), for subscription by way of International Offering. The International Offering will be managed by the Sole Global Coordinator and is expected to be fully underwritten by the International Underwriters. Pursuant to the International Offering, it is expected that the International Underwriters or any selling agents which they nominate will, on behalf of our Company, conditionally place the International Offer Shares at the Offer Price plus 1% brokerage, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee with selected professional, institutional and private investors. Professional and institutional investors generally include brokers, dealers, companies and fund managers, whose ordinary businesses involve dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. It is expected that the International Underwriting Agreement will be executed on or around the Price Determination Date.

Allocation of the International Offer Shares to professional, institutional and private investors pursuant to the International Offering will be based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the investor is likely to purchase further Shares, or hold or sell the Shares placed, after Listing. Such allocation is intended to result in a distribution of the International Offer Shares on the basis which would lead to the establishment of a solid broad shareholder base to the benefit of our Company and our Shareholders taken as a whole. Investors to whom International Offer Shares are offered are required to undertake not to apply for the Hong Kong Offer Shares under the Hong Kong Public Offering. The level of indication of interest in the International Offering is expected to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on Tuesday, 17 March 2020. The International Offering is subject to the conditions stated in the paragraph headed "Conditions of the Global Offering" above.

ADJUSTMENT OPTIONS

In connection with the Global Offering, our Company intends to grant the Offer Size Adjustment Option and the Over-allotment Option to the International Underwriters exercisable by the Sole Global Coordinator (for itself and on behalf of the International Underwriters) at its sole discretion.

Offer Size Adjustment Option

Pursuant to the Offer Size Adjustment Option, if we make a Downward Offer Price Adjustment to set the final Offer Price at HK$1.05 per Offer Share upon making a full Downward Offer Price Adjustment, such that the size of the Global Offering is less than HK$100 million, the Sole Global Coordinator has its sole discretion, exercisable at any time from the date of the International Underwriting Agreement up to 5:00 p.m. on the business day immediately before the date of announcement of the results of allocations and the basis of allocation of the Hong Kong Offer Shares to require our Company to allot and issue up to an aggregate of 13,260,000 additional Shares, representing 15% of the total number of Offer Shares initially available for subscription under the Global Offering, at the same price per Offer Share at which Offer Shares were initially offered under the International Offering, to cover excess demand in the International Offering, if any, on the same terms and conditions as the Offer Shares that are subject to the Global Offering. The Offer Size Adjustment Option will not be used for price stabilisation purposes in the secondary market after Listing of our Shares on the Stock Exchange and is not subject to the Securities and Futures (Price Stabilising) Rules (Chapter 571W of the Laws of Hong Kong). Any such additional Shares may be issued to cover any excess demand in the International Offering. If the Sole Global Coordinator exercises the Offer Size Adjustment Option in full, the additional Offer Shares will represent approximately 2.49% of our Company's enlarged issued share capital immediately following completion of the Global Offering and the exercise of the Offer Size Adjustment Option. We will disclose in the announcement of the results of allocations whether or not the Offer Size Adjustment Option has been exercised, if so, to what extent. If the Offer Size Adjustment Option is not exercised at or before 5:00 p.m. on the business day prior to the announcement of results of allocations, the Offer Size Adjustment Option will lapse.

Over-allotment Option

It is expected that under the International Underwriting Agreement, our Company will grant the Over-allotment Option to the International Underwriters, exercisable at the sole discretion of the Sole Global Coordinator (for itself and on behalf of the International Underwriters) to require our Company at any time within a period commencing from the Listing Date and ending on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering, to allot and issue up to an aggregate of 13,260,000 additional new Shares, representing 15% of the Offer Shares initially being offered under the Global Offering, on the same terms as those applicable to the Global Offering, to cover over-allocations in the International Offering. The additional Shares to be allotted and issued pursuant to the exercise of the Over-allotment Option will be allocated to the International Offering and/or to satisfy the Sole Global Coordinator's obligation to return Shares borrowed under the Stock Borrowing Agreement. The Sole Global Coordinator may also cover any over-allocations under the International Offering through the purchase of Shares in the secondary market or otherwise as may be permitted under applicable laws. Any purchases of Shares in the market to cover the over-allocations will be made at prices not exceeding the Offer Price. The number of Shares that may be over-allocated may not be greater than the number of Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option. Assuming the Over-allotment Option is not exercised, the Offer Shares will represent 17% of our Company's enlarged issued share capital immediately after completion of the Global Offering. If the Over-allotment Option is exercised in full, the Offer Shares (including the Shares allotted and issued pursuant to the exercise of the Over-allotment Option) will represent about 19.1% of the enlarged issued share capital of our Company immediately after completion of the Global Offering and the exercise of the Over-allotment Option in full. In the event that the Over-allotment Option is exercised, an announcement will be made in English in the South China Morning Post and in Chinese in the Hong Kong Economic Times.

Based on an Offer Price of HK$1.32 per Offer Share (being the mid-point of the Offer Price range between HK$1.17 per Offer Share and HK$1.47 per Offer Share), the net proceeds of the Global Offering, assuming that the Over-allotment Option is not exercised and after deducting related expenses, are estimated to be about HK$76.1 million. If the Over-allotment Option is exercised in full, our Company will receive additional net proceeds of about HK$16.8 million, after deducting brokerages, commissions and expenses attributable to the exercise of the Over-allotment Option.

The Hong Kong Public Offering is open to the public as well as to institutional, professional and private investors in Hong Kong. The International Offering involves selective marketing of the International Offer Shares by the International Underwriters to professional, institutional and private investors. Investors may either apply for the Shares under the Hong Kong Public Offering or indicate an interest for the Shares under the International Offering, and may only receive an allocation of Shares under the Hong Kong Public Offering or the International Offering. The Offer Shares are not available for subscription by existing beneficial owners of the Shares, our Directors, chief executive of our Company or any of its subsidiaries or their respective associates, or any other connected persons (as defined in Chapter 1 of the Listing Rules) of our Company or persons who will become connected persons (as defined in Chapter 1 of the Listing Rules) of our Company immediately upon completion of the Global Offering.

THE HONG KONG PUBLIC OFFERING

Our Company is initially offering, at the Offer Price, 8,840,000 Shares (subject to readjustment as mentioned in the paragraph headed "Readjustment of Offer Shares between the Hong Kong Public Offering and the International Offering" below), representing 10% of the total number of Shares being initially offered under the Global Offering, for subscription under the Hong Kong Public Offering (before the exercise of any of the Adjustment Options). The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters subject to the terms and conditions of the Hong Kong Underwriting Agreement. Applicants for the Hong Kong Offer Shares are required on application to pay the Offer Price plus 1% brokerage, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee.

The Hong Kong Public Offering is open to all members of the public in Hong Kong. An applicant for Hong Kong Offer Shares will be required to give an undertaking and confirmation in the relevant Application Form submitted by him/her that he/she has not applied for nor taken up any International Offer Shares nor participated in the International Offering. Applicants should note that if such undertaking and/or confirmation given by the applicant is breached and/or is untrue (as the case may be), such applicant's application under the Hong Kong Public Offering is liable to be rejected.

The total number of the Offer Shares available under the Hong Kong Public Offering is to be divided into two pools of 4,420,000 Hong Kong Offer Shares for each of pool A and pool B, respectively, for allocation purposes:

— Pool A: The Hong Kong Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate subscription price of HK$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable) or less; and

— Pool B: The Hong Kong Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate subscription price of more than HK$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable) and up to the value of pool B.

Investors should be aware that the allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pools is undersubscribed, the surplus Hong Kong Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B but not both. Multiple applications or suspected multiple applications within either pool or between pools and any application made for more than 100% of the Hong Kong Offer Shares initially available under either pool A or pool B will be rejected.

Allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offering, both in relation to pool A or pool B, will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of the Hong Kong Offer Shares validly applied for by each applicant. When there is over subscription under the Hong Kong Public Offering, allocation of the Hong Kong Offer Shares may involve balloting, which would mean that some applicants may be allotted more Hong Kong Offer Shares than others who have applied for the same number of the Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares. The results of the Hong Kong Public Offering and basis of allocation of the Hong Kong Offer Shares (with successful applicants' identification document numbers, where appropriate) are expected to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on Tuesday, 17 March 2020.

Applications under the Hong Kong Public Offering from investors receiving the International Offer Shares under the International Offering will be identified and rejected and investors receiving the Hong Kong Offer Shares under the Hong Kong Public Offering will not be offered the International Offer Shares under the International Offering. Multiple applications or suspected multiple applications or applications for more than 100% of the Hong Kong Offer Shares initially available in either pool A or pool B for public subscription under the Hong Kong Public Offering (i.e. to apply for more than 4,420,000 Hong Kong Offer Shares) are liable to be rejected.

The Hong Kong Public Offering is subject to the conditions as stated in the paragraph headed "Conditions of the Global Offering" above.

READJUSTMENT OF OFFER SHARES BETWEEN THE HONG KONG PUBLIC OFFERING AND THE INTERNATIONAL OFFERING

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator.

The allocation of Offer Shares between the International Offering and the Hong Kong Public Offering is subject to adjustment on the following basis:

(a) if both the Hong Kong Offer Shares and the International Offer Shares are undersubscribed, subject to the negotiation between the Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) in good faith, the Global Offering shall 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 Global Offering on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements;

(b) if the Hong Kong Offer Shares are undersubscribed and the International Offer Shares are oversubscribed, the Sole Global Coordinator has the authority to reallocate all or any undersubscribed Hong Kong Offer Shares to the International Offering, in such proportion as the Sole Global Coordinator deems appropriate;

(c) where the International Offer Shares are fully subscribed or oversubscribed; and

(i) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 17,680,000 Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 26,520,000 Offer Shares, representing 30% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Adjustment Options);

(ii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 26,520,000 Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the number of the Offer Shares available under the Hong Kong Public Offering will be increased to 35,360,000 Offer Shares, representing 40% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Adjustment Options);

(iii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 35,360,000 Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the number of the Offer Shares available under the Hong Kong Public Offering will be increased to 44,200,000 Offer Shares, representing 50% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Adjustment Options),

in each case the additional Offer Shares reallocated to the Hong Kong Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Sole Global Coordinator deems appropriate; and

(d) pursuant to the Stock Exchange's Guidance Letter HKEx-GL-91–18:

(i) if the International Offer Shares are undersubscribed and if the Hong Kong Offer Shares are oversubscribed, irrespective of the number of times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering in such circumstances; or

(ii) if the International Offer Shares are fully subscribed or oversubscribed, and if the Hong Kong Offer Shares are fully subscribed or oversubscribed but the number of Shares validly applied for under the Hong Kong Public Offering represents less than 15 times of the initial number of the Hong Kong Offer Shares,

then, the final Offer Price shall be fixed at the low-end of the Offer Price range stated in the prospectus or the downward adjusted final Offer Price if a Downward Offer Price Adjustment is made, up to 8,840,000 Offer Shares may be reallocated from the International Offering to satisfy valid applications in pool A and pool B under the Hong Kong Public Offering, so that the total number of Offer Shares available for subscription under the Hong Kong Public Offering will be increased up to 17,680,000 Offer Shares, and such limit represents 20% of the number of the Offer Shares initially available under the Global Offering.

References in this prospectus to applications, Application Forms, application monies to the procedure for application relate solely to the Hong Kong Public Offering.

Details of any readjustment of Offer Shares between the Hong Kong Public Offering and the International Offering will be disclosed in the results announcement, which is expected to be made on Tuesday, 17 March 2020.

STABILISATION AND STOCK BORROWING AGREEMENT

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, agree to purchase or actually purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, to prevent a decline in the initial Hong Kong Public Offering prices of the securities. In Hong Kong, the stabilisation price will not exceed the initial Offer Price.

In connection with the Global Offering, the Sole Global Coordinator, as stabilising manager, or any person acting for it, (for itself and on behalf of the Underwriters and not as agent for our Company) may to the extent permitted by applicable law and regulatory requirements of Hong Kong and elsewhere over-allocate Shares or effect transactions in the market or otherwise with a view to stabilising or maintaining the market price of the Shares at such prices and in such manner as the Sole Global Coordinator may determine and at levels which might not otherwise prevail in the open market. Such stabilisation, if commenced, shall commence on the Listing Date and may be discontinued at any time at the absolute discretion of the Sole Global Coordinator, its affiliates or any person acting for it, and will end on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering in any event. The number of Shares that may be over-allocated will not be greater than the maximum number of Shares which may be issued upon exercise of the Over-allotment Option, being 13,260,000 Shares, which is 15% of the Shares initially available under the Global Offering.

Stabilisation action cannot be taken to support the price of the Offer Shares for longer than the stabilising period which begins on the Listing Date and ends on the 30th day after the last day for lodging of applications under the Hong Kong Public Offering (the "**Stabilisation Period**"). Stabilisation may only be commenced if the size of the Global Offering is HK$100 million or above. The Stabilisation Period is expected to expire on Friday, 3 April 2020 and that after this date, when no further stabilising action may be taken, demand for our Shares, and therefore its price, could fall.

During the Stabilisation Period, the Sole Global Coordinator as stabilising manager or any person acting for it, may purchase or agree to purchase, or offer, the Shares for the sole purpose of preventing or minimising any reduction in the market price of the Shares, which will be effected in compliance with all applicable laws and regulatory requirements, including the Securities and Futures (Price Stabilizing) Rules made under the SFO. In connection with any such stabilisation actions as described above, the Sole Global Coordinator as stabilising manager, or any person acting for it, may allocate a greater number of Shares than the number that is initially offered, or sell or agree to sell Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares. It may close out any such short position by exercising the Over-allotment Option, as described above. It may also agree to sell or sell any Shares acquired by it in the course of any stabilisation transactions in order to liquidate any position that has been established by such action.

The Sole Global Coordinator may, in connection with the stabilising action, maintain a long position in the Shares. The size of the long position, and the time period for which the Sole Global Coordinator will maintain such a position during the Stabilisation Period, are at the sole discretion of the Sole Global Coordinator and is uncertain. In the event that the Sole Global Coordinator liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Shares.

Investors should be aware that the price of the Shares cannot be assured to stay at or above its Offer Price by the taking of any stabilising action. Stabilisation bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price the investor has paid for the Offer Shares.

In order to facilitate the settlement of over-allocations, the Sole Global Coordinator, as the stabilising manager, or its authorised agents may, among other means, purchase Shares in the secondary market, enter into stock borrowing arrangements with holders of Shares, exercise the Over-allotment Option, engage in a combination of these means or otherwise as may be permitted under applicable laws. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations.

In this connection, the Sole Global Coordinator will enter into the Stock Borrowing Agreement with Top Synergy whereby the Sole Global Coordinator may borrow up to 13,260,000 Shares from Top Synergy, equivalent to the maximum number of additional Shares to be offered upon full exercise of the Over-allotment Option, under the Stock Borrowing Agreement. The Stock Borrowing Agreement is not subject to the restrictions of Rule 10.07(1) of the Listing Rules which restricts the disposal of Shares by controlling shareholders following a new listing, provided the following requirements under Rule 10.07(3) of the Listing Rules are complied with:

— the Stock Borrowing Agreement will only be effected by the Sole Global Coordinator as stabilising manager for covering any short position arising from over-allocations under the International Offering prior to the exercise of the Over-allotment Option;

— the maximum number of Shares to be borrowed from Top Synergy will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;

— the same number of Shares so borrowed must be returned to Top Synergy or its nominees on or before the third business day, a day that is not a Saturday, Sunday or public holiday in Hong Kong, following the earlier of (i) the last day on the Over-allotment Option may be exercised, and (ii) the day on which the Over-allotment Option is exercised in full;

— borrowing of Shares pursuant to the Stock Borrowing Agreement will be effected in compliance with all applicable Listing Rules, laws and other regulatory requirements; and

— no payments will be made to Top Synergy in relation to the Stock Borrowing Agreement.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on 18 March 2020, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on 18 March 2020. The Shares will be traded in board lots of 2,000 Shares.

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at **www.hkeipo.hk** or by IPO App; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) or, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at its discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Hong Kong Offer Shares. Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of shares in our Company and/or any our subsidiaries;
- a Director or chief executive officer of our Company and/or any of our subsidiaries;
- a connected person or a core connected person (as defined in the Listing Rules) of our
- Company or will become a connected person or a core connected person of our Company immediately upon completion of the Global Offering;
- an associate or close associate (as defined in the Listing Rules) of any of the above; or
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which application channel to use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.hkeipo.hk** or the IPO App.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 28 February 2020 to 12:00 noon on Wednesday, 4 March 2020 from:

(i) the following address of the Sole Global Coordinator:

CMBC Securities Company Limited	45/F, One Exchange Square, 8 Connaught Place, Central, Hong Kong

(ii) Any of the following branches of the receiving bank:

Industrial and Commercial Bank of China (Asia) Limited

District	Branch Name	Address
Hong Kong	Central Branch	1/F., 9 Queen's Road Central, Hong Kong
	Wanchai Branch	117–123 Hennessy Road, Wanchai, Hong Kong
Kowloon	Tsimshatsui East Branch	Shop B, G/F, Railway Plaza, 39 Chatham Road South, Tsimshatsui, Kowloon
	Yaumatei Branch	542 Nathan Road, Yaumatei, Kowloon
New Territories	Tsuen Wan Castle Peak Road Branch	G/F, 423–427 Castle Peak Road, Tsuen Wan, New Territories
	Yan Ching Street Branch	Shops 4 and 5, G/F, Tuen Mun Centre, 11 Yan Ching Street, Tuen Mun, New Territories.

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 28 February 2020 until 12:00 noon on Wednesday, 4 March 2020 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "ICBC (Asia) Nominee Limited — Kidztech Holdings 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:

9:00 a.m. to 5:00 p.m. — Friday, 28 February 2020
9:00 a.m. to 1:00 p.m. — Saturday, 29 February 2020
9:00 a.m. to 5:00 p.m. — Monday, 2 March 2020
9:00 a.m. to 5:00 p.m. — Tuesday, 3 March 2020
9:00 a.m. to 12:00 noon — Wednesday, 4 March 2020

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, 4 March 2020, the last application day or such later time as described in the paragraph headed "10. Effect of bad weather and/or extreme conditions on the opening of the applications lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

(i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Global Coordinator (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;

(iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

(iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;

(vi) agree that none of our Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;

(viii) agree to disclose to our Company, the Hong Kong Branch Share Registrar, receiving bank, the Sole Global Coordinator, the Underwriters and/or their respective advisors and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Global Coordinator, the Underwriters nor any of their respective officers or advisors will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Forms;

(x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) agree that your application will be governed by the laws of Hong Kong;

(xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xiii) warrant that the information you have provided is true and accurate;

(xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you 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;

(xvii) understand that our Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional instructions for Yellow Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in the paragraph headed "2. Who can apply" above may apply through the **HK eIPO White Form** service for the Hong Kong Offer Shares to be allotted and registered in their own names through the designated website at **www.hkeipo.hk** or by the IPO App.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website or in the IPO App. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website or the IPO App, you authorise the HK eIPO White Form Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for submitting applications under the HK eIPO White Form

You may submit your application through the **HK eIPO White Form** Service Provider at **www.hkeipo.hk** or in the IPO App (24 hours daily, except on the last application day) from 9:00 a.m. on Friday, 28 February 2020 until 11:30 a.m. on Wednesday, 4 March 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, 4 March 2020 or such later time under the paragraph headed "10. Effects of bad weather and/or extreme conditions on the opening of the applications lists" in this section.

No multiple applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System **(https://ip.ccass.com)** (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service 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 CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator and our Hong Kong Branch Share Registrar.

GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;

- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;

- (if the **electronic application instructions** are given for your benefits) declare that only one set of **electronic application instructions** has been given for your benefit;

- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;

- confirm that you understand that our Company, our Directors, the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;

- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

- agree that none of our Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

- agree to disclose your personal data to our Company, the Hong Kong Branch Share Registrar, receiving bank, the Sole Global Coordinator, the Underwriters and/or its respective advisors and agents;

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;

- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Articles; and

- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of giving electronic application instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum purchase amount and permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 2,000 Hong Kong Offer Shares. Instructions for more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for inputting electronic application instructions[(1)]

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

9:00 a.m. to 8:30 p.m.	**—**	**Friday, 28 February 2020**
8:00 a.m. to 1:00 p.m.	**—**	**Saturday, 29 February 2020**
8:00 a.m. to 8:30 p.m.	**—**	**Monday, 2 March 2020**
8:00 a.m. to 8:30 p.m.	**—**	**Tuesday, 3 March 2020**
8:00 a.m. to 12:00 noon	**—**	**Wednesday, 4 March 2020**

Note (1): These times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, 28 February 2020 until 12:00 noon on Wednesday, 4 March 2020 (24 hours daily, except (Wednesday, 4 March 2020) on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Wednesday, 4 March 2020, the last application day or such later time as described in the paragraph headed "10. Effect of bad weather and/or extreme conditions on the opening of the application lists" in this section.

No multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal data

The section of the Application Form headed "Personal Data" applies to any personal data held by us, the Hong Kong Branch Share Registrar, the receiving banks, the Sole Global Coordinator, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the HK eIPO White Form Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Global Coordinator and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, 4 March 2020.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of that company;
- control more than half of the voting power of that company; or
- hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the HK eIPO White Form service in respect of a minimum of 2,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.hkeipo.hk** or in the IPO App.

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules), and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed "Structure and conditions of the Global Offering" in this prospectus.

10. EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS 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
- an announcement of "extreme conditions" by the Hong Kong Government in accordance with the revised "Code of Practice in times of Typhoons and rainstorms" issued by the Hong Kong Labour Department in June 2019; and/or
- a "black" rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 4 March 2020. Instead they will open between 9:00 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 Wednesday, 4 March 2020 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal and/or extreme conditions in force in Hong Kong that may affect the dates mentioned in the section headed "Expected timetable", an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Tuesday, 17 March 2020 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), on our Company's website at **www.kidztech.net** and the website of the Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at **www.kidztech.net** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 8:00 a.m. on Tuesday, 17 March 2020;
- from the designated results of allocations website at **www.tricor.com.hk/ipo/result** (or **www.hkeipo.hk/IPOResult**) with a "search by ID" function or "Allotment Result" function in the IPO App on a 24-hour basis from 8:00 a.m. on Tuesday, 17 March 2020 to 12:00 midnight on Monday, 23 March 2020;
- by telephone enquiry line by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Tuesday, 17 March 2020 to Friday, 20 March 2020;
- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, 17 March 2020 to Thursday, 19 March 2020 at all the receiving bank designated branches and sub-branches on a business day.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure and conditions of the Global Offering" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** Service Provider, you agree your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Sole Global Coordinator, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or

- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website **www.hkeipo.hk** or in the IPO App;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Global Coordinator believes that by accepting your application, it would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK$1.47 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed "Structure and conditions of the Global Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Tuesday, 17 March 2020.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and

- refund cheque(s) crossed "Account Payee Only" in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Tuesday, 17 March 2020. 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 Wednesday, 18 March 2020 provided that the Global Offering has become unconditional and the right of termination described in the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from our Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 17 March 2020 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 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the Application Form on Tuesday, 17 March 2020, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Tuesday, 17 March 2020, 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 Tuesday, 17 March 2020, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

  For Hong Kong Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

- *If you are applying as a CCASS Investor Participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in the paragraph headed "11. Publication of results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 17 March 2020 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the HK eIPO White Form Service

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your share certificate(s) from our Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 17 March 2020, or such other date as notified by our Company in the newspapers as the date of despatch/collection of share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Tuesday, 17 March 2020 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share certificates into CCASS and refund of application monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, 17 March 2020, or, on any other date determined by HKSCC or HKSCC Nominees.

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in the paragraph headed "11. Publication of Results" in this section above on Tuesday, 17 March 2020. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 17 March 2020 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, 17 March 2020. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, 17 March 2020.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

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

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling our Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.

pwc 羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF KIDZTECH HOLDINGS LIMITED AND CMBC INTERNATIONAL CAPITAL LIMITED

Introduction

We report on the historical financial information of Kidztech Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-64, which comprises the combined statements of financial position as at 31 December 2016, 2017 and 2018 and 31 August 2019, and the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the periods then ended (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-64 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 28 February 2020 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the combined financial position of the Group as at 31 December 2016, 2017 and 2018 and 31 August 2019 and of its combined financial performance and its combined cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the combined statements of comprehensive income, changes in equity and cash flows for the eight months ended 31 August 2018 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 13 to the Historical Financial Information which states that no dividends have been paid by Kidztech Holdings Limited in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 February 2020

I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

(a) Combined Statements of Comprehensive Income

		Year ended 31 December			Eight months ended 31 August	
		2016	**2017**	**2018**	**2018**	**2019**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Revenue	5	214,025	259,185	278,717	149,380	210,240
Cost of sales	6	(129,242)	(166,765)	(183,110)	(98,687)	(131,747)
Gross profit		84,783	92,420	95,607	50,693	78,493
Selling expenses	6	(16,850)	(16,046)	(16,607)	(10,996)	(13,302)
Administrative expenses	6	(27,165)	(33,379)	(33,567)	(21,183)	(29,656)
Net impairment reversed/(losses) on financial assets		281	(6,834)	(1,324)	(3,187)	(1,038)
Other income	8	448	10,633	5,659	2,250	3,052
Other gains/(losses) — net	9	805	138	(463)	(533)	4,645
Operating profit		42,302	46,932	49,305	17,044	42,194
Finance income		80	246	275	172	946
Finance costs		(3,718)	(4,944)	(8,003)	(4,634)	(6,173)
Finance costs — net	10	(3,638)	(4,698)	(7,728)	(4,462)	(5,227)
Profit before income tax		38,664	42,234	41,577	12,582	36,967
Income tax expenses	11	(5,219)	(6,147)	(8,824)	(1,308)	(9,217)
Profit for the year/period		33,445	36,087	32,753	11,274	27,750
Profit/(loss) attributable to						
Owners of the Company		33,445	36,087	32,773	11,294	27,750
Non-controlling interests		—	—	(20)	(20)	—
		33,445	36,087	32,753	11,274	27,750

		Year ended 31 December			Eight months ended 31 August	
		2016	2017	2018	2018	2019
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Other comprehensive income						
Items that may be reclassified to profit or loss:						
Currency translation differences		392	(2,185)	1,417	(115)	684
Other comprehensive income/(loss) for the year/period		392	(2,185)	1,417	(115)	684
Total comprehensive income/(loss) for the year/period attributable to						
Owners of the Company		33,837	33,902	34,190	11,179	28,434
Non-controlling interests		—	—	(20)	(20)	—
		33,837	33,902	34,170	11,159	28,434
Earnings per share attributable to owners of the Company						
Basic and diluted *(RMB)*	12	N/A	N/A	N/A	N/A	N/A

(b) Combined Statements of Financial Position

		As at 31 December			As at 31 August
		2016	2017	2018	2019
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Non-current assets					
Property, plant and equipment	14	65,045	145,324	174,760	138,482
Intangible assets	16	4,921	5,435	4,922	7,699
Deferred income tax assets	17	1,076	3,388	3,377	4,754
Prepayments	20	59,792	50,110	57,197	57,506
		130,834	204,257	240,256	208,441
Current assets					
Inventories	18	22,190	32,091	31,212	41,583
Trade receivables	19	34,682	62,137	88,618	92,854
Prepayments and other receivables	20	38,442	19,133	20,960	59,626
Restricted cash	22	—	—	1,000	1,018
Cash and cash equivalents	21	31,096	159,156	188,634	109,748
		126,410	272,517	330,424	304,829
Total assets		257,244	476,774	570,680	513,270
EQUITY					
Equity attributable to owners of the Company					
Combined capital	23	65,000	78,000	78,000	78,000
Other reserves	24	43,065	179,426	186,479	189,896
Retained earnings		41,591	74,585	101,702	25,319
		149,656	332,011	366,181	293,215
Non-controlling interests		—	5,700	—	—
Total equity		149,656	337,711	366,181	293,215

		As at 31 December			As at 31 August
		2016	**2017**	**2018**	**2019**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
LIABILITIES					
Non-current liabilities					
Deferred revenue		—	2,096	3,690	3,030
Deferred tax liabilities	17	1,664	1,617	1,570	2,563
Lease liabilities	15	3,092	3,089	1,806	430
License fee payable	26	1,741	2,179	868	1,528
		6,497	8,981	7,934	7,551
Current liabilities					
Trade and other payables	25	43,919	27,491	44,505	55,817
License fee payable	26	2,215	2,576	1,883	2,704
Contract liabilities		293	968	634	1,463
Bank and other borrowings	27	49,100	90,109	140,189	136,702
Lease liabilities	15	1,602	3,508	3,209	3,569
Current income tax liabilities		3,962	5,430	6,145	12,249
		101,091	130,082	196,565	212,504
Total liabilities		107,588	139,063	204,499	220,055
Total equity and liabilities		257,244	476,774	570,680	513,270

(c) Combined Statements of Changes in Equity

	Attributable to Owners of Company				
	Combined capital	**Other reserves**	**Retained earnings**	**Non-controlling interests**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 23)	*(Note 24)*			
Balance at 1 January 2016	65,000	22,632	28,187	—	115,819
Comprehensive income					
— Profit for the year	—	—	33,445	—	33,445
— Other comprehensive income	—	392	—	—	392
Total comprehensive income	—	392	33,445	—	33,837
Transfer to statutory reserve	—	2,470	(2,470)	—	—
Conversion of limited liability company to joint stock company	—	17,571	(17,571)	—	—
Balance at 31 December 2016	65,000	43,065	41,591	—	149,656
Balance at 1 January 2017	65,000	43,065	41,591	—	149,656
Comprehensive income					
— Profit for the year	—	—	36,087	—	36,087
— Other comprehensive income	—	(2,185)	—	—	(2,185)
Total comprehensive income	—	(2,185)	36,087	—	33,902
Capital contribution from the then shareholders of a subsidiary	13,000	135,453	—	—	148,453
Transfer to statutory reserve	—	3,093	(3,093)	—	—
Non-controlling interests on acquisition of a subsidiary	—	—	—	5,700	5,700
Balance at 31 December 2017	78,000	179,426	74,585	5,700	337,711
Balance at 1 January 2018	78,000	179,426	74,585	5,700	337,711
Comprehensive income					
— Profit/(loss) for the year	—	—	32,773	(20)	32,753
— Other comprehensive income	—	1,417	—	—	1,417
Total comprehensive income	—	1,417	32,773	(20)	34,170
Transfer to statutory reserve	—	5,656	(5,656)	—	—
Transactions with non-controlling interests	—	(20)	—	(5,680)	(5,700)
Balance at 31 December 2018	78,000	186,479	101,702	—	366,181

	Attributable to Owners of Company				
	Combined capital	Other reserves	Retained earnings	Non-controlling interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 23)	*(Note 24)*			
Balance at 1 January 2019	78,000	186,479	101,702	—	366,181
Comprehensive income					
— Profit for the period	—	—	27,750	—	27,750
— Other comprehensive income	—	684	—	—	684
Total comprehensive income	—	684	27,750	—	28,434
Cash dividends paid to the then shareholders of a subsidiary	—	—	(101,400)	—	(101,400)
Transfer to statutory reserve	—	2,733	(2,733)	—	—
Balance at 31 August 2019	78,000	189,896	25,319	—	293,215
Unaudited:					
Balance at 1 January 2018	78,000	179,426	74,585	5,700	337,711
Comprehensive income					
— Profit/(loss) for the period	—	—	11,294	(20)	11,274
— Other comprehensive income	—	(115)	—	—	(115)
Total comprehensive income	—	(115)	11,294	(20)	11,159
Transfer to statutory reserve	—	518	(518)	—	—
Transactions with non-controlling interests	—	(20)	—	(5,680)	(5,700)
Balance at 31 August 2018	78,000	179,809	85,361	—	343,170

(d) Combined Statements of Cash Flows

		Year ended 31 December			Eight months ended 31 August	
		2016	2017	2018	2018	2019
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Cash flows from operating activities						
Cash generated from/(used in) operations	29	78,746	33,220	59,166	(61,360)	35,851
Income tax paid		(6,386)	(7,082)	(8,115)	(5,334)	(3,483)
Net cash generated from/(used in) operating activities		72,360	26,138	51,051	(66,694)	32,368
Cash flows from investing activities						
Purchase of property, plant and equipment		(84,178)	(77,188)	(60,738)	(68,437)	(3,679)
Purchase of intangible assets		—	(1,380)	(134)	(134)	—
Proceeds from disposal of property, plant and equipment		—	243	268	—	4,950
Increase in other receivables		(7,160)	(29,049)	(24,455)	(1,860)	(27,811)
Decrease in other receivables		7,160	29,049	24,455	1,860	27,811
Interest received		80	246	275	172	946
Increase in restricted cash		—	—	(1,000)	(1,000)	(18)
Net cash (used in)/generated from investing activities		(84,098)	(78,079)	(61,329)	(69,399)	2,199
Cash flows from financing activities						
Capital contribution from the then shareholders of a subsidiary		—	156,000	—	—	—
Payment for listing expenses		—	(7,547)	—	—	(766)
Proceeds from borrowings		49,100	125,329	124,000	104,000	110,000
Repayments of borrowings		(29,653)	(84,320)	(73,920)	(52,230)	(113,487)
Interest paid		(3,049)	(4,306)	(7,422)	(4,260)	(5,815)
Principal and interest element of lease payments		(1,884)	(2,881)	(4,380)	(2,769)	(2,723)
Cash dividends paid to the then shareholders of a subsidiary		—	—	—	—	(101,400)
Net cash generated from/(used in) financing activities		14,514	182,275	38,278	44,741	(114,191)
Net increase/(decrease) in cash and cash equivalents		2,776	130,334	28,000	(91,352)	(79,624)
Cash and cash equivalents at beginning of the year/period		27,942	31,096	159,156	159,156	188,634
Exchange differences on cash and cash equivalents		378	(2,274)	1,478	(199)	738
Cash and cash equivalents at end of the year/period		31,096	159,156	188,634	67,605	109,748

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

1.1 General information

Kidztech Holdings Limited (the "Company") was incorporated in the Cayman Islands on 25 October 2019 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. Its subsidiaries (which, together with the Company, are referred to as the "Group") are engaged in manufacturing and sales of toys (the "Listing Business").

1.2 Reorganisation

Prior to the Reorganisation (as defined below), the Listing Business was operated by Kidztech (Guangdong) Intelligent Technology Co., Ltd. ("Kidztech Intelligent", formerly known as Kidztech Intelligent Technology Co., Ltd.) and its subsidiaries ("the Operating Companies"). Kidztech Intelligent is a company incorporated in the People's Republic of China ("PRC") and whose shares were listed on National Equities Exchange and Quotations ("NEEQ") of the PRC.

In preparation for the initial public offering and listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing"), the Group underwent a reorganisation to establish the Company as the ultimate holding company of the Listing Business (the "Reorganisation"). Details of the Reorganisation are set out below:

(a) On 28 August 2019, Kidztech Intelligent was delisted on NEEQ. As at such date, Kidztech Intelligent was owned by Mr. Yu Huang ("Mr. Yu"), executive director and substantial shareholder of the Group, and Ms. Chen Cheng ("Ms. Chen"), spouse of Mr. Yu, and other individual or corporate shareholders.

(b) Pursuant to a series of transactions subsequent to 28 August 2019, Mr. Yu acquired additional equity interests from certain shareholders of Kidztech Intelligent at consideration of RMB9.42 to RMB17 per share, resulting in increase in Mr. Yu and Ms. Chen's ownership in Kidztech Intelligent from 43.33% to 47.95%. In addition, two shareholders namely Ms. Song Nannan and Mr. Xu Jianxin acquired an aggregate shareholding interests of 4.88% in Kidztech Intelligent from the then shareholders at consideration of RMB12 and RMB4.5 per share, respectively. As a result of these transactions, Kidztech Intelligent was owned as to 47.95% by Mr. Yu and Ms. Chen and 52.05% by the other shareholders.

(c) On 30 October 2019, Ms. Ng Mo Sum ("Ms. Ng") acquired 12.82% equity interests in Kidztech Intelligent from Mr. Yu Junhao, a then shareholder of Kidztech Intelligent, at cash consideration of RMB45,000,000. Since then, Kidztech Intelligent became a sino-foreign joint venture in the PRC.

(d) On 21 November 2019, Shantou Kidztech Technology Consulting Co., Ltd. ("Old PRC Holdco") was established in the PRC as a limited liability company by the shareholders of Kidztech Intelligent. In consideration for the equity interest of Old PRC Holdco, the then shareholders of Kidztech Intelligent injected their respective equity interest in Kidztech Intelligent to Old PRC Holdco, other than the 12.82% equity interest in Kidztech Intelligent held by Ms. Ng. Upon completion of the capital injection, Kidztech Intelligent became 87.18% and 12.82% owned by Old PRC Holdco and Ms. Ng respectively.

(e) On 25 October 2019, the Company was incorporated in the Cayman Islands with an authorised share capital of HK$380,000 dividing into 380,000,000 ordinary shares of Hong Kong dollars ("HK$") 0.001 each. Upon the incorporation of the Company, one share was transferred to Keen Pacemaker Limited ("Keen Pacemaker"), a company incorporated in the British Virgin Islands ("BVI") and owned by Mr. Pui

Lik Leung Kenny ("Mr. Pui"), an executive director and a then shareholder of Kidztech Intelligent. On 15 November 2019, the Company allotted and issued an aggregate of 77,999,999 shares at par to fifteen BVI companies owned by the then shareholders of Kidztech Intelligent.

(f) On 6 November 2019, Kidztech (BVI) Limited ("Kidztech BVI") was incorporated in the BVI with limited liability. As of the date of its incorporation, the authorised share capital of Kidztech BVI was US$50,000 divided into 50,000 ordinary shares of US$1 each, and one share was allotted and issued to the Company.

(g) On 24 October 2019, Kidztech (China) Intelligent Technology Co., Limited ("Kidztech (China)") was incorporated in Hong Kong as a limited liability company with share capital of HK$1. As of the date of incorporation, one ordinary share of Kidztech (China) was allotted and issued to Keen Pacemaker. On 7 November 2019, Keen Pacemaker transferred the one share it held in Kidztech (China) to Kidztech BVI at a nominal consideration of HK$1.

(h) On 21 November 2019, Shantou Kidztech No. 1 Technology Consulting Co., Ltd. ("WFOE") was established in the PRC as a wholly-foreign-owned subsidiary of Kidztech (China) with an initial registered capital of RMB1,000,000.

(i) On 22 November 2019, Shantou Kidztech No. 2 Technology Consulting Co., Ltd. ("New PRC Holdco") was established in the PRC as a limited liability company, with an initial registered capital of RMB111,428,571 with WFOE, Old PRC Holdco and Ms. Ng subscribing capital of RMB110,325,317, RMB961,851 and RMB141,403, representing approximately 99.01%, 0.86% and 0.13% of the registered capital of New PRC Holdco, respectively. The capital contribution would be settled by cash for WFOE and by the equity interest in Kidztech Intelligent by Old PRC Holdco and Ms. Ng, respectively.

(j) On 19 December 2019, WFOE acquired the 0.86% and 0.13% equity interest in New PRC Holdco from Old PRC Holdco and Ms. Ng respectively at cash consideration of RMB961,851 and RMB141,403 respectively and New PRC Holdco became an wholly-owned subsidiary of WFOE.

Upon the completion of the Reorganisation, the Company became the holding company of all other companies now comprising the Group.

As at 31 December 2016, 2017 and 2018, 31 August 2019 and the date of this report, the Company has direct or indirect interests in the following subsidiaries:

Name of company	Place and date of incorporation	Registered and paid-up capital	Principal activities and place of operation	Equity interest held as at					*Note*
				31 December			31 August	As at date of	
				2016	2017	2018	2019	this report	
Directly held									
Kidztech BVI	BVI, 6 November 2019	HK$1	Investment holding, BVI	—	—	—	—	100%	(a)
Indirectly held									
Kidztech (China)	Hong Kong, 24 October 2019	HK$1	Investment holding, Hong Kong	—	—	—	—	100%	(a)
WFOE	PRC, 21 November 2019	RMB1,000,000/ —	Investment holding, PRC	—	—	—	—	100%	(a)
New PRC Holdco	PRC, 22 November 2019	RMB111,428,571/ RMB1,103,254	Investment holding, PRC	—	—	—	—	100%	(a)
Kidztech Intelligent	PRC, 30 May 2001	RMB78,000,000/ RMB78,000,000	Manufacturing and sales of toys, PRC	100%	100%	100%	100%	100%	(b)
Kidztech Toys Manufacturing Co., Ltd. ("Kidztech HK")	Hong Kong, 18 July 2011	HK$500,000	Export of toys, Hong Kong	100%	100%	100%	100%	100%	(c)
Shenzhen Kidztech Internet Technology Co., Ltd.	PRC, 23 September 2015	RMB5,000,000/ RMB5,000,000	Sales of toys through e-commerce channels, PRC	100%	100%	100%	100%	100%	(d)
Shenzhen Kidztech Internet of Things Technology Co., Ltd	PRC, 1 April 2016	RMB5,000,000/ RMB4,693,000	Research, development and sales of smart hardware, PRC	100%	100%	100%	100%	100%	(d)
Kidztech (Shantou) Information Technology Co., Ltd. ("Kidztech Infotech")	PRC, 21 March 2017	RMB96,000,000/ RMB83,340,000	Dormant, PRC	—	100%	100%	100%	100%	(d), (e)
Shantou Yudilong Plastic Co., Ltd. ("Shantou Yudilong")	PRC, 24 December 2001	RMB12,890,000/ RMB12,890,000	Property investment, PRC	—	80%	100%	100%	—	(d), (f)

(a) No audited financial statements have been prepared since these companies were newly incorporated in 2019.

(b) The statutory financial statements of this company for the years ended 31 December 2016, 2017 and 2018 were audited by Da Hua Certified Public Accountants (大華會計師事務所), certified public accountants in the PRC.

(c) The statutory financial statements of this company for the years ended 31 December 2016, 2017 and 2018 were audited by ECOVIS Focus Hong Kong CPA Limited, certified public accountants in Hong Kong.

(d) No audited financial statements have been prepared as these companies had no statutory audit requirements during the years ended 31 December 2016, 2017 and 2018 under the rules and regulations in the PRC.

(e) During the year ended 31 December 2017, Kidztech Intelligent entered into an arrangement with a third party which is a state-owned enterprise in the PRC ("the State-owned Company") whereby Kidztech Intelligent and the State-owned Company are entitled to inject registered share capital of RMB71,000,000 and RMB25,000,000 respectively into Kidztech Infotech, representing respective equity interest of 73.96% and 26.04%. Under the arrangement, Kidztech Intelligent was required to repay the equity investment of RMB25,000,000 to the State-owned Company on 30 March 2020 together with an aggregate fixed return of RMB1,875,000. The State-owned Company is not entitled to any share of profit or residual assets of Kidztech Infotech and accordingly, the Directors treated Kidztech Infotech as a 100% owned subsidiary of the Group. The RMB25,000,000 capital injection from the State-owned Company was treated as other borrowings of the Group during the Track Record Period.

(f) This company was disposed of by the Group in August 2019 (Note 28).

1.3 Basis of presentation

Immediately prior to and after the Reorganisation, the Listing Business is mainly conducted through the Operating Companies. Pursuant to the Reorganisation, interests in the Operating Companies were transferred to and held by the Company. The Company has not been involved in any other business prior to the Reorganisation and does not meet the definition of a business. The Reorganisation is merely a recapitalisation of the Listing Business with no change in management and the ultimate owners of the Listing Business remain the same. Accordingly, the combined financial information of the companies comprising the Group is presented using the carrying values of the Listing Business for all periods presented, as if the current group structure had been in existence throughout the Track Record Period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to all the years and periods presented, unless otherwise stated.

2.1 Basis of preparation

The principal accounting policies applied in the preparation of the Historical Financial Information which are in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA are set out below. The Historical Financial Information has been prepared under the historical cost convention.

In preparing the Historical Financial Information, all HKFRSs, which are effective for the accounting period beginning on 1 January 2019, including but not limited to HKFRS 9 'Financial Instruments', HKFRS 15 'Revenue from Contracts with Customers' and HKFRS 16 'Leases', have been consistently applied by the Group throughout the Track Record Period.

2.1.1 New standards and interpretations not yet adopted

The following new standards, amendments to standards and interpretations have been published but are not mandatory for accounting periods beginning 1 January 2019 and have not been early adopted by the Group.

		Effective for annual periods beginning on or after
HKAS 1 and HKAS 8	Disclosure initiative — definition of material	1 January 2020
Amendments to HKFRS 3	Definition of a business	1 January 2020
HKFRS 17	Insurance contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020

Management is in the process of making an assessment of the impact of the above new standards and amendments to standards and considered on a preliminary basis that these new standards and amendment to standards will not result in any substantial changes to the Group's existing accounting policies and presentation of the financial information.

2.2 Subsidiaries

2.2.1 Consolidation

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

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

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

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

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

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Acquisition of an asset or a group of assets that does not constitute a business

When the Group acquires an asset or a group of assets that does not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed. The cost of the Group shall be allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill.

2.2.2 Separate financial statements

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

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

2.3 Segment reporting

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

2.4 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the operating subsidiary incorporated in Hong Kong is United States dollars ("USD"), while the functional currency of the other subsidiaries in the PRC is RMB. The combined financial statements are presented in RMB, which is the Company's functional currency and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currencies using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance income/(costs). All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other gains/(losses) — net.

(iii) Group companies

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

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position,

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

- all resulting exchange differences are recognised in other comprehensive income.

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

Fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.5 Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

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

Buildings	30–35 years
Leasehold improvements	2–5 years
Mould and machinery	3–10 years
Motor vehicles	3–10 years
Furniture and office equipment	3–5 years

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

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

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and included in profit or loss.

2.6 Intangible assets

(i) Trademarks

Separately acquired trademarks and licenses are shown at historical cost. Trademarks acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.

(ii) Software

Acquired computer software are capitalised on the basis of costs incurred to acquire and bring to use the specific software.

(iii) License rights

License rights are stated at historical cost less accumulated amortisation and accumulated impairment losses. They are initially measured at the fair value of the consideration given to acquire the license at the time of the acquisition, which represents the capitalised present values of the fixed minimum payment to be made upon commencement of the license contract and in subsequent years.

The Group amortises intangible assets with limited useful lives of 3 to 5 years for trademarks and software and over the terms of the license right contracts of one to three years using straight-line method.

2.7 Impairment of non-financial assets

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

2.8 Financial assets

2.8.1 Classification

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

a) those to be measured subsequently at fair value either through other comprehensive income or through profit or loss, and

b) those to be measured at amortised cost.

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

2.8.2 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Debt instruments held at amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Debt instruments are presented as "Trade receivables", "Other receivables", "Cash and cash equivalents", and "Restricted cash" in the combined statements of financial positions.

2.8.3 Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

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

2.8.4 Recognition and de-recognition

Regular way purchases and sales of financial assets are recognised on trade date — the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

2.9 Offsetting financial instruments

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

2.10 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

2.11 Cash and cash equivalents

In the combined statements of cash flows, cash and cash equivalents include cash in hand and at bank. Bank deposits which are restricted to use are included in "Restricted cash". Restricted cash are excluded from cash and cash equivalents in the combined statements of cash flows.

2.12 Inventories

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

2.13 Share capital

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

2.14 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade payables are classified as current liabilities unless payment is not due within 12 months after the reporting period.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 License fee payables

License fee payables are initially recorded at the fair value, which represents the present value of the fixed minimum payments to be made. They are subsequently stated at amortised cost using the effective interest method less payments made.

Interests incurred on license fee payables are charged to profit or loss as interest expense.

2.16 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

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

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

2.17 Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

2.18 Current and deferred income tax

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

Current income tax

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

Deferred income tax

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

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

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

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

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

2.19 Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the statement of financial position.

(ii) Pension obligations

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to certain ceiling.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The Group's contributions to these plans are expensed as incurred.

The Group has arranged for its employees in Hong Kong to join the Mandatory Provident Fund Scheme ("the MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, the group company in Hong Kong (the employer) and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The monthly contributions of each of the group company and its employees are subject to a cap of HKD1,500 and thereafter contributions are voluntary.

(iii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits.

(iv) Housing funds, medical insurances and other social insurances

Employees of the group companies in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each year.

(v) Bonus entitlements

The expected cost of bonus payments are recognised as a liability when the Group has a present contractual or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

2.20 Share-based compensation

The Group recognises the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received. The Group shall recognises a corresponding increase in equity if the goods or services were received in an equity-settled share-based payment transaction, or a liability if the goods or services were acquired in a cash-settled share-based payment transaction.

In the absence of specifically identifiable goods or services, other circumstances may indicate that goods or services have been (or will be) received.

The Group recognises the unidentifiable goods or services received (or to be received) by the Group when the identifiable consideration received (if any) appears to be less than the fair value of the equity instruments granted. In this situation, it indicates that other consideration (i.e. unidentifiable goods or services) has been (or will be) received by the Group. The entity shall measure the unidentifiable goods or services received at the grant date. However, for cash-settled transactions, the liability shall be remeasured at the end of each reporting period until it is settled.

2.21 Government grants

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

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred revenue and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2.22 Revenue recognition

Sales are recognised when control of the products has transferred, being when the products are delivered and there is no unfulfilled obligation that could affect the customers' acceptance of the products. Delivery occurs when the products have been shipped or placed to the specific location, the risks of obsolescence and loss have been transferred to the customers and the criteria for customers' acceptance have been satisfied.

For sales to certain customers with a right of return, revenue is recognised after netting off the estimated sales return. Accumulated experience is used to estimate the return rate. A refund liabilities (included in trade and other payables) and a right to the returned goods (including in prepayments and other receivables) are recognised for the products expected to be refunded.

Receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

A contract liability is the obligation to transfer products to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers products to the customer, a contract liability is recognised when the payment is made. Contract liabilities are recognised as revenue when the Group performs under the contract.

2.23 Leases

The Group leases various offices, land, and factory buildings. Rental contracts for offices and factory buildings are typically made for fixed periods of 3 to 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

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

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

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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

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

- any initial direct costs; and
- restoration costs.

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

Upfront prepayment made for the land use rights are right-of-use assets and are expensed in profit or loss on a straight-line basis over the period of the lease, which is 50 years. Lease prepayments are carried at cost less accumulated amortisation and impairment losses.

2.24 Research and development

Research expenditures are recognised as expenses as incurred. Costs incurred on development projects (relating to the design and developing of new or improved utility models and utility patents) are recognised as intangible assets if, and only if, the Group can demonstrate all of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Other development expenditures that do not meet these criteria are recognised as expenses or cost of sales when incurred. Development costs previously recognised as expenses or cost of sales are not recognised as an asset in a subsequent period.

2.25 Dividend distribution

Dividend distribution to the shareholders of the group companies is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the shareholders of the group companies.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the financial department under policies approved by the board of directors.

3.1.1 Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency.

The Group's operating subsidiary incorporated in Hong Kong operates in Hong Kong with most transactions being settled in USD or Hong Kong dollars ("HKD"). The functional currency of this subsidiary is USD. Under the Linked Exchange Rate System between USD and HKD in Hong Kong, the Group considers that no significant foreign exchange risk exists for this subsidiary.

All other subsidiaries comprising the Group operate in the PRC and their functional currency is RMB. Foreign exchange risk arose from certain intra-group transactions and balances of these entities which are denominated in USD. The Group timely monitors the fluctuation in exchange rate between RMB and USD and makes timely settlement.

The Group's exposure to foreign currency risk at the end of each reporting period, expressed in RMB, was as follows:

	As at 31 December			As at 31 August
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables				
— in USD	1,214	—	—	—
Cash and cash equivalents				
— in EUR	10	14	9	9
Trade payables				
— in EUR	(13)	—	—	—
— in RMB	(14)	—	(16)	(16)
License fee payables				
— in EUR	—	—	—	(73)
— in USD	—	—	—	(121)
	1,197	14	(7)	(201)

The directors are of the view that the exchange rate risk of the Group as at 31 December 2016, 2017 and 2018 and 31 August 2019 was not significant.

(ii) Interest rate risk

The Group is exposed to interest rate risk for certain interest-bearing cash at banks and borrowings. Cash at banks and borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

As at 31 December 2016, 2017 and 2018 and 31 August 2019, if the interest rate on cash at banks and borrowings increased/decreased by 0.5% with all other variables held constant, the Group's post-tax profits for the year/period would have been RMB132,000 higher/lower, RMB613,000 higher/lower, RMB635,000 higher/lower and RMB313,000 higher/lower.

The Group has not entered into any interest rate swaps to hedge its exposure to interest rate risks.

3.1.2 Credit risk

Credit risk arises from cash and cash equivalents, restricted cash, trade receivables, and other receivables. The carrying amount of these balances in the combined statement of financial position represents the Group's maximum exposure to credit risk in relation to its financial assets. Management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis.

(i) Risk management

Majority of the Group's cash and cash equivalents and restricted cash are placed in banks incorporated in the PRC which are reputable local listed commercial banks or state-owned banks. Management does not expect any losses from non-performance by these banks as they have no default history in the past.

In respect of trade receivables and other receivables, periodical credit evaluations are performed taking into account the counterparty's financial position, past experience, future economic environment and other factors.

(ii) Impairment of financial assets

Trade receivables

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

To measure the expected credit losses of trade receivables, individual credit evaluation on significant customers is performed by management. The evaluation focused on the customer payment history and current and future ability for payment taking into account the information specific to the customer as well as pertaining to the current and future general economic environment in which the customer operated.

For receivables that are not subject to individual credit evaluation or individually assessed as not impaired, management grouped them based on shared credit risk characteristics and the aging profile, and collectively assessed the expected credit losses taking into account the ageing analysis and the history of bad debt losses in respect of those groups of customers. The historical loss rates are adjusted to reflect current and forward-looking information affecting the ability of the customers and debtors to settle the receivables.

The loss allowance as at 31 December 2016, 2017 and 2018 and 31 August 2019 was determined as follows for trade receivables:

31 December 2016	**Less than 30 days**	**30 days to 120 days**	**121 days to 1 year**	**Specific balances**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Expected loss rate	3.08%	4.33%	10.16%	100%	
Gross carrying amount — trade receivables	16,848	16,114	3,269	176	36,407
Loss allowance	519	698	332	176	1,725

31 December 2017	**Less than 30 days**	**30 days to 120 days**	**121 days to 1 year**	**Specific balances**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Expected loss rate	3.77%	4.66%	10.57%	80.50%	
Gross carrying amount — trade receivables	39,734	18,783	5,249	6,666	70,432
Loss allowance	1,498	876	555	5,366	8,295

31 December 2018	**Less than 30 days**	**30 days to 120 days**	**121 days to 1 year**	**Specific balances**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Expected loss rate	3.59%	4.59%	10.50%	100%	
Gross carrying amount — trade receivables	53,787	34,410	4,393	1,387	93,977
Loss allowance	1,933	1,578	461	1,387	5,359

31 August 2019	**Less than 30 days**	**30 days to 120 days**	**121 days to 1 year**	**Specific balances**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Expected loss rate	3.71%	4.35%	10.23%	100%	
Gross carrying amount — trade receivables	52,437	36,144	8,676	2,075	99,332
Loss allowance	1,943	1,572	888	2,075	6,478

The closing loss allowances for trade receivables as at 31 December 2016, 2017 and 2018 and 31 August 2019 reconcile to the opening loss allowances as follows:

	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of the year/period	1,936	1,725	8,295	5,359
(Reversal of provision)/provision for loss allowance	(281)	6,834	1,324	1,038
Written off	—	—	(4,439)	—
Exchange difference	70	(264)	179	81
At end of year/period	1,725	8,295	5,359	6,478

Other receivables

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

For other receivables, the Group makes periodic collective assessments as well as individual assessment on the recoverability based on past experience and forward-looking information. The Group's other receivables are mainly deposits, tax rebates to be collected and receivables relating to the disposal of a subsidiary, the directors are of the view that the expected credit losses are not material.

Trade receivables and other receivables are written off when there is no reasonable expectation of recovery. Subsequent recoveries of amounts previously written off are credited into profit or loss.

Cash and cash equivalents

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was not considered significant.

3.1.3 Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from banks and other financial institutions to meet their liquidity requirements in the short and longer term.

Management devotes to tighten its credit terms to customers and fasten its collection of debtors by available means in order to maintain sufficient cash to meet the obligations. Moreover, the Group continues to explore its available funding through different financial facilities to maintain sufficient flexibility in funding as well. The Group closely monitors its policies to maintain sufficient cash flows and ensure they are effective. Management considers that there is no significant liquidity risk as the Group has sufficient committed facilities to fund their operations.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	On demand	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2016					
Bank and other borrowings	49,100	—	—	—	49,100
Trade and other payables (excluding tax payables and payroll payable)	—	40,320	—	—	40,320
Lease liabilities	—	1,923	1,573	1,870	5,366
License fee payable	—	2,215	1,209	863	4,287
	49,100	44,458	2,782	2,733	99,073
As at 31 December 2017					
Bank and other borrowings	90,109	—	—	—	90,109
Trade and other payables (excluding tax payables and payroll payable)	—	20,830	—	—	20,830
Lease liabilities	—	3,902	2,268	1,063	7,233
License fee payable	—	2,576	2,220	588	5,384
	90,109	27,308	4,488	1,651	123,556
As at 31 December 2018					
Bank and other borrowings	140,189	—	—	—	140,189
Trade and other payables (excluding tax payables and payroll payable)	—	28,345	—	—	28,345
Lease liabilities	—	3,468	1,857	—	5,325
License fee payable	—	1,883	998	158	3,039
	140,189	33,696	2,855	158	176,898
As at 31 August 2019					
Bank and other borrowings	136,702	—	—	—	136,702
Trade and other payables (excluding tax payables and payroll payable)	—	49,345	—	—	49,345
Lease liabilities	—	3,737	440	—	4,177
License fee payable	—	2,704	1,966	—	4,670
	136,702	55,786	2,406	—	194,894

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

	As at 31 December			As at 31 August
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Less than 1 year	51,037	57,450	114,556	141,221
Between 1 to 2 years	—	6,480	32,371	2,094
Between 2 to 5 years	—	32,557	212	85
	51,037	96,487	147,139	143,400

3.2 Capital management

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the net debt to total capital ratio. Net debt is calculated as total borrowings and lease liabilities less cash and cash equivalents and restricted cash. Total capital is calculated as "equity" as shown in the combined statements of financial position plus net debt.

During Track Record Period, the Group's strategy was to maintain the net debt to total capital ratio at a reasonable level. The net debt to total capital ratio at 31 December 2016, 2017 and 2018 and at 31 August 2019 were as follows:

	As at 31 December			As at 31 August
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total borrowings *(Note 27)*	49,100	90,109	140,189	136,702
Lease liabilities *(Note 15)*	4,694	6,597	5,015	3,999
Less: cash and cash equivalents *(Note 21)*	(31,096)	(159,156)	(188,634)	(109,748)
Restricted cash *(Note 22)*	—	—	(1,000)	(1,018)
Net debt/(cash)	22,698	(62,450)	(44,430)	29,935
Total equity	149,656	337,711	366,181	293,215
Total capital	172,354	N/A	N/A	323,150
Net debt to total capital ratio	13.2%	N/A	N/A	9.3%

The net debt to total capital ratio as at 31 December 2017 and 2018 were not applicable as the Group was at net cash position.

3.3 Fair value estimation

Financial assets and liabilities

The Group's financial assets and financial liabilities are mainly receivables and payables, respectively, which are carried at amortised cost. The fair values of these financial instruments approximate their carrying amounts due to their short maturities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Impairment of trade receivables

The expected credit losses for trade receivables are based on the assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's assessment on customer payment history and current and future ability for payment taking into account the information specific to the customer as well as pertaining to the current and future general economic environment in which the customer operated. Details of management's credit risk assessment are disclosed in Note 3.1.2.

(b) Net realisable value of inventories

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Write-downs of inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgment and estimates. These estimates are based on the market condition and the historical experience of selling prices of similar nature. Where the expectation is different from the original estimate, such difference will be reflected in the write-downs of inventories in the period in which such estimate are changed.

(c) Estimated useful lives of property, plant and equipment

The Group's management determines the estimated useful lives, and related depreciation charges for its property, plant and equipment. The estimates are based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charges where useful lives are less than previously estimated lives. It will write off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore affect the depreciation charges in future periods.

(d) Impairment of property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The recoverable amounts have been determined based on the higher of value-in-use calculations or fair value less costs to sell calculations. The calculations require the use of judgements and estimates. Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations.

(e) Current and deferred income tax

The Group is subject to income taxes in the PRC and HK. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences would impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

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

5 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors of the Company.

The Group is principally engaged in manufacturing and sales of toy cars. Management reviews the operating results of the business as one operating segment to make decisions about resources to be allocated. Therefore, the executive directors of the Company regards that there is only one operating segment which is used to make strategic decisions. Revenue and profit before income tax are the measures reported to the executive directors for the purpose of resources allocation and performance assessment.

During the Track Record Period, majority of the Group's non-current assets were located in the PRC.

Analysis of revenue by product type is as follows:

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Smart toys					
— Smart toy vehicles	171,967	219,220	218,120	119,440	135,617
— Smart interactive toys	22,753	15,555	19,659	9,943	19,381
Traditional toys	19,305	24,410	34,500	16,646	52,182
Smart hardware	—	—	6,438	3,351	3,060
Total	214,025	259,185	278,717	149,380	210,240
Timing of revenue recognition					
— At a point in time	214,025	259,185	278,717	149,380	210,240

During the year ended 31 December 2016, 2017 and 2018 and eight months ended 31 August 2018 and 2019, details of the Group's sales to external customers who accounted for more than 10% of total revenue are set out below.

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
				(unaudited)	
Customer A	*	24%	*	*	*
Customer B	13%	11%	*	*	*
Customer C	*	*	*	*	17%

* *These customers contributed less than 10% of total revenue for the corresponding year/period.*

Revenue from customers by geographic location as determined by destination of delivery is as follows:

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Out of Mainland China	157,874	179,238	133,819	77,462	100,235
Mainland China	56,151	79,947	144,898	71,918	110,005
Total	214,025	259,185	278,717	149,380	210,240

The Group recognised the following contract liabilities relating to contracts with customers:

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Sales of toys	293	968	634	1,463

Revenue recognised in relation to contract liabilities

Revenue recognised in the year ended 31 December 2016, 2017 and 2018 and eight months ended 31 August 2018 and 2019 which related to carried-forward contract liabilities was RMB833,000, RMB293,000, RMB968,000, RMB968,000 and RMB634,000, respectively.

Unsatisfied performance obligations

The Group does not disclose information about remaining performance obligations as their original expected duration is less than one year as permitted under the practical expedient in accordance with HKFRS 15.

6 EXPENSES BY NATURE

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Raw materials and goods used *(Note 18)*	86,800	110,902	125,732	66,945	89,261
Staff costs (including directors' emoluments) *(Note 7)*	21,619	37,841	44,888	26,856	32,811
Subcontracting charges	15,793	9,499	4,535	1,774	3,316
Royalty expenses (a)	12,111	13,023	13,651	7,559	9,561
Depreciation and amortisation expenses of trademark and software	9,829	16,470	18,106	11,481	12,712
Freight charge and transportation expenses	3,492	4,869	5,223	2,528	3,173
Testing and inspection fee	4,259	3,291	3,429	2,654	2,126
Legal and professional fee	1,838	2,899	2,674	2,481	686
Listing expenses for the Listing	—	—	—	—	8,578
Auditors' remuneration	448	283	476	241	20
Expenses relating to short term leases *(Note 15)*	1,571	1,037	76	48	42
Utilities	1,864	2,029	2,348	1,465	1,749
Business and other taxes	1,089	1,965	2,266	440	1,136
Office supplies	760	759	553	360	413
Exhibition and promotion expenses	975	517	404	245	228
Others	10,809	10,806	8,923	5,789	8,893
Total cost of sales, selling expenses and administrative expenses	173,257	216,190	233,284	130,866	174,705

(a) Royalty expenses comprised amortisation of license rights of RMB3,298,000, RMB4,069,000, RMB3,050,000, RMB1,997,000 and RMB2,974,000 (Note 16) and variable license payments of RMB8,813,000, RMB8,954,000, RMB10,601,000, RMB5,562,000 and RMB6,587,000 for the years ended 31 December 2016, 2017 and 2018 and eight months ended 31 August 2018 and 2019, respectively.

7 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Salaries, wages, bonuses and other benefits	20,896	36,970	43,911	26,233	32,129
Pension costs — defined contribution plans	723	871	977	623	682
	21,619	37,841	44,888	26,856	32,811

(a) Directors' emoluments

The remuneration of each director for the year ended 31 December 2016 is set out below:

Name	Fees	Salaries and other benefits	Contribution to pension scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors				
Mr. Pui (i)	—	806	16	822
Mr. Yu (i)	—	458	10	468
Non-executive director				
Ms. Zheng Jingyun (ii)	—	—	—	—
	—	1,264	26	1,290

The remuneration of each director for the year ended 31 December 2017 is set out below:

Name	Fees	Salaries and other benefits	Contribution to pension scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors				
Mr. Ni Yanlong (ii)	—	57	2	59
Mr. Pui (i)	—	848	16	864
Mr. Yu (i)	—	479	13	492
Non-executive director				
Ms. Zheng Jingyun (ii)	—	—	—	—
Independent non-executive directors				
Mr. He Weidong (iii)	20	—	—	20
Ms. Liu Man (iii)	20	—	—	20
Ms. Zhao Weiwei (iii)	20	—	—	20
	60	1,384	31	1,475

The remuneration of each director for the year ended 31 December 2018 is set out below:

Name	Fees	Salaries and other benefits	Contribution to pension scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors				
Mr. Ni Yanlong (ii)	—	150	5	155
Mr. Pui (i)	—	777	16	793
Mr. Yu (i)	—	246	5	251
Non-executive director				
Ms. Zheng Jingyun (ii)	—	—	—	—
Independent non-executive directors				
Mr. He Weidong (iii)	60	—	—	60
Ms. Liu Man (iii)	60	—	—	60
Ms. Zhao Weiwei (iii)	60	—	—	60
	180	1,173	26	1,379

The remuneration of each director for the eight months ended 31 August 2018 is set out below:

Name	Fees	Salaries and other benefits	Contribution to pension scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors				
Mr. Ni Yanlong (ii)	—	100	4	104
Mr. Pui (i)	—	473	10	483
Mr. Yu (i)	—	164	4	168
Non-executive director				
Ms. Zheng Jingyun (ii)	—	—	—	—
Independent non-executive directors				
Mr. He Weidong (iii)	40	—	—	40
Ms. Liu Man (iii)	40	—	—	40
Ms. Zhao Weiwei (iii)	40	—	—	40
	120	737	18	875

The remuneration of each director for the eight months ended 31 August 2019 is set out below:

Name	Fees	Salaries and other benefits	Contribution to pension scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Executive directors				
Mr. Ni Yanlong (ii)	—	100	4	104
Mr. Pui (i)	—	484	11	495
Mr. Yu (i)	—	164	4	168
Non-executive director				
Ms. Zheng Jingyun (ii)	—	—	—	—
Independent non-executive directors				
Mr. He Weidong (iii)	40	—	—	40
Ms. Liu Man (iii)	40	—	—	40
Ms. Zhao Weiwei (iii)	40	—	—	40
	120	748	19	887

(i) Mr. Yu and Mr. Pui were appointed as directors of the Company on 25 October 2019 and were re-designated as executive directors on 1 November 2019.

(ii) Mr. Ni Yanlong and Ms. Zheng Jingyun were appointed as executive and non-executive directors of the Company respectively on 1 November 2019.

(iii) Mr. He Weidong, Ms. Liu Man and Ms. Zhao Weiwei were appointed as the directors of the Company on 13 February 2020.

(b) Directors' retirement and termination benefits

No retirement benefits were paid to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiaries' undertaking during the year ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2018 and 2019.

No payment was made to the directors as compensation for early termination of appointment during the years ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2018 and 2019.

(c) Consideration provided to their parties for making available directors' services

No payment was made to any former employers of the directors for making available the services of them as a director of the Company during the years ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2018 and 2019.

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

There were no other loans, quasi-loans and other dealings in favour of the directors, controlled bodies corporate by and connected entities with such directors during the year ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2018 and 2019.

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

Save as disclosed in the Note 31, no significant transactions, arrangements and contracts in relation to the Group's business to which the Group was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the years ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2018 and 2019.

(f) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2018 and 2019 included 2, 2, 1, 1 and 1 directors/director, respectively, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining individuals during the Track Record Period are as follows:

	Year ended 31 December			Eight months ended 31 August	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Salaries and other benefits	1,069	1,107	1,370	789	865
Contribution to pension scheme	44	45	59	39	42
	1,113	1,152	1,429	828	907

The emoluments of these remaining individuals of the Group fell within the following bands:

	Year ended 31 December			Eight months ended 31 August	
	2016	**2017**	**2018**	**2018** *(unaudited)*	**2019**
Emolument bands					
Nil to HKD1,000,000	3	3	4	4	4

8 OTHER INCOME

	Year ended 31 December			Eight months ended 31 August	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Government grants (a)	162	4,242	2,522	1,767	2,385
Rental income	—	—	724	483	464
Compensation in relation to breach of contract (b)	—	5,215	—	—	—
Others	286	1,176	2,413	—	203
	448	10,633	5,659	2,250	3,052

(a) Government grants mainly comprised subsidies for the costs incurred for listing on NEEQ, and subsidies for research and development expenses incurred by the Group.

(b) During the year ended 31 December 2016, the Group entered into a contract with an independent third party for purchase of certain land use rights and factory buildings in Shantou, the PRC. In 2017, the contract was cancelled and RMB5,215,000 was paid by the vendor to the Group as compensation for breach of contract.

9 OTHER GAINS/(LOSSES) — NET

	Year ended 31 December			Eight months ended 31 August	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Exchange gains/(losses)	805	138	(463)	(533)	72
Gains on disposals of a subsidiary (*Note 28*)	—	—	—	—	4,804
Others	—	—	—	—	(231)
	805	138	(463)	(533)	4,645

10 FINANCE COSTS — NET

	Year ended 31 December			Eight months ended 31 August	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Finance income					
— Interest income	80	246	275	172	946
Finance costs					
— Interest expenses on bank borrowings	(2,312)	(3,484)	(5,584)	(3,084)	(4,792)
— Interest expenses on other borrowings	(7)	(516)	(1,522)	(1,054)	(825)
— Interest expenses on lease liabilities (*Note 15*)	(418)	(397)	(411)	(267)	(191)
— Interest expenses on license fee payables	(251)	(241)	(170)	(107)	(167)
— Others	(730)	(306)	(316)	(122)	(198)
	(3,718)	(4,944)	(8,003)	(4,634)	(6,173)
	(3,638)	(4,698)	(7,728)	(4,462)	(5,227)

11 INCOME TAX EXPENSES

	Year ended 31 December			Eight months ended 31 August	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Current income tax					
— PRC enterprise income tax	3,716	5,939	7,739	1,150	7,461
— Hong Kong profits tax	2,278	2,611	1,091	945	2,126
Deferred income tax *(Note 17)*	(775)	(2,403)	(6)	(787)	(370)
	5,219	6,147	8,824	1,308	9,217

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax. Under the current laws of BVI, entities incorporated in BVI are not subject to income tax.

Kidztech Toys Manufacturing Limited ("Kidztech HK"), the Company's operating subsidiary incorporated in Hong Kong, is subject to income tax at the rate of 16.5% on the assessable profits arising in Hong Kong during the Track Record Period. For the year ended 31 December 2018, the Group is eligible to nominate one Hong Kong incorporated entity in the Group, which is Kidztech HK, to be taxed at the two tiered profits tax rates, whereby profits tax will be chargeable on the first HKD2,000,000 of assessable profits at 8.25% and assessable profits above this threshold will be subject to a rate of 16.5%. Hong Kong profits tax of the other Hong Kong incorporated group entities has been provided for at the rate of 16.5% on the estimated assessable profits.

Pursuant to the PRC Enterprise Income Tax Law ("EIT Law"), the EIT rate for domestic enterprises and foreign invested enterprises is 25%. On 9 December 2016, Kidztech Intelligent, the Group's operating subsidiary in the PRC, was awarded the High and New Technology Enterprise Certificate (the "HNTE Certificate") which is effective for three years commencing on 1 January 2016 with applicable income tax rate being 15% for the years from 2016 to 2018. The HNTE Certificate has expired and Kidztech Intelligent is in the process of applying for renewal of such HNTE Certificate. The applicable tax rate adopted by Kidztech Intelligent for the eight months ended 31 August 2019 was 25%, being the EIT rate for domestic enterprises in the PRC. All the other PRC entities of the Group are subject to EIT at a rate of 25%.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate applicable to profit of the entities comprising the Group as follows:

	Year ended 31 December			Eight months ended 31 August	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Profit before income tax	38,664	42,234	41,577	12,582	36,967
Calculated at applicable tax rate	5,705	6,156	6,191	1,740	7,998
Expenses not deductible for tax purposes	47	518	14	2	2,126
Additional deduction on research and development expenses	(533)	(543)	(916)	(471)	(934)
Tax losses for which no deferred income tax asset was recognised	—	16	74	37	27
Tax on dividend income (a)	—	—	3,461	—	—
	5,219	6,147	8,824	1,308	9,217

(a) In 2018, Kidztech HK declared a dividend of RMB34,000,000 to Kidztech Intelligent, its immediate holding company. Such dividend was subject to enterprise income tax according to the relevant tax law in the PRC.

12 EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the results for each years ended 31 December 2016, 2017, 2018 and eight months ended 31 August 2018 and 2019 on a combined basis as disclosed in Note 1.3.

13 DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation and up to the date of this report.

Pursuant to the resolution of the shareholders' meeting held on 20 May 2019, dividends of RMB101,400,000 were approved and declared by Kidztech Intelligent to its then shareholders. Such dividends were paid during the eight months ended 31 August 2019.

14 PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets								
	Land use rights	Leased properties	Buildings	Leasehold improvements	Mould and machinery	Motor vehicles	Furniture and office equipment	Construction-in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016									
Cost	12,500	6,160	21,963	2,342	11,229	1,783	682	—	56,659
Accumulated depreciation	(256)	—	(394)	(273)	(3,824)	(1,323)	(570)	—	(6,640)
Accumulated impairment	—	—	—	—	(217)	—	—	—	(217)
Net book amount	12,244	6,160	21,569	2,069	7,188	460	112	—	49,802
Year ended 31 December 2016									
Opening net book amount	12,244	6,160	21,569	2,069	7,188	460	112	—	49,802
Additions	—	—	—	4,650	16,997	160	3,246	133	25,186
Depreciation	(339)	(1,646)	(679)	(583)	(5,679)	(193)	(703)	—	(9,822)
Exchange difference	—	—	—	—	21	30	6	—	57
Impairment	—	—	—	—	(178)	—	—	—	(178)
Closing net book amount	11,905	4,514	20,890	6,136	18,349	457	2,661	133	65,045
At 31 December 2016									
Cost	12,500	6,160	21,963	6,992	28,250	2,063	3,955	133	82,016
Accumulated depreciation	(595)	(1,646)	(1,073)	(856)	(9,506)	(1,606)	(1,294)	—	(16,576)
Accumulated impairment	—	—	—	—	(395)	—	—	—	(395)
Net book amount	11,905	4,514	20,890	6,136	18,349	457	2,661	133	65,045
Year ended 31 December 2017									
Opening net book amount	11,905	4,514	20,890	6,136	18,349	457	2,661	133	65,045
Additions	47,810	4,387	8,596	604	29,659	1,549	248	5,265	98,118
Disposal	—	—	—	—	—	(243)	—	—	(243)
Depreciation	(383)	(2,612)	(696)	(1,893)	(9,737)	(95)	(996)	—	(16,412)
Exchange difference	—	—	—	—	(24)	(19)	(4)	—	(47)
Impairment	—	—	—	—	(1,137)	—	—	—	(1,137)
Closing net book amount	59,332	6,289	28,790	4,847	37,110	1,649	1,909	5,398	145,324
At 31 December 2017									
Cost	60,310	10,547	30,559	7,596	57,870	3,173	4,174	5,398	179,627
Accumulated depreciation	(978)	(4,258)	(1,769)	(2,749)	(19,228)	(1,524)	(2,265)	—	(32,771)
Accumulated impairment	—	—	—	—	(1,532)	—	—	—	(1,532)
Net book amount	59,332	6,289	28,790	4,847	37,110	1,649	1,909	5,398	145,324
Year ended 31 December 2018									
Opening net book amount	59,332	6,289	28,790	4,847	37,110	1,649	1,909	5,398	145,324
Additions	—	2,409	—	3,528	14,048	79	187	28,948	49,199
Disposal	—	—	—	—	(268)	—	—	—	(268)
Depreciation	(1,613)	(3,819)	(910)	(2,395)	(7,996)	(219)	(1,019)	—	(17,971)
Exchange difference	—	(98)	—	20	7	69	4	—	2
Impairment	—	—	—	—	(1,526)	—	—	—	(1,526)
Closing net book amount	57,719	4,781	27,880	6,000	41,375	1,578	1,081	34,346	174,760
At 31 December 2018									
Cost	60,310	12,858	30,559	11,151	70,546	3,389	4,384	34,346	227,543
Accumulated depreciation	(2,591)	(8,077)	(2,679)	(5,151)	(26,113)	(1,811)	(3,303)	—	(49,725)
Accumulated impairment	—	—	—	—	(3,058)	—	—	—	(3,058)
Net book amount	57,719	4,781	27,880	6,000	41,375	1,578	1,081	34,346	174,760

	Right-of-use assets								
	Land use rights	Leased properties	Buildings	Leasehold improvements	Mould and machinery	Motor vehicles	Furniture and office equipment	Construction-in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Eight months ended 31 August 2019									
Opening net book amount	57,719	4,781	27,880	6,000	41,375	1,578	1,081	34,346	174,760
Additions	—	1,607	—	—	3,766	253	117	—	5,743
Depreciation	(1,078)	(2,546)	(607)	(1,893)	(5,893)	(159)	(311)	—	(12,487)
Exchange difference	—	(11)	—	17	5	42	3	—	56
Disposal	(27,313)	—	—	—	—	—	—	—	(27,313)
Impairment	—	—	—	—	(2,277)	—	—	—	(2,277)
Closing net book amount	29,328	3,831	27,273	4,124	36,976	1,714	890	34,346	138,482
At 31 August 2019									
Cost	31,743	14,454	30,559	11,182	74,333	3,736	4,515	34,346	204,868
Accumulated depreciation	(2,415)	(10,623)	(3,286)	(7,058)	(32,022)	(2,022)	(3,625)	—	(61,051)
Accumulated impairment	—	—	—	—	(5,335)	—	—	—	(5,335)
Net book amount	29,328	3,831	27,273	4,124	36,976	1,714	890	34,346	138,482
Unaudited: Eight months ended 31 August 2018									
Opening net book amount	59,332	6,289	28,790	4,847	37,110	1,649	1,909	5,398	145,324
Additions	—	—	—	3,066	10,145	79	133	726	14,149
Depreciation	(1,078)	(2,465)	(607)	(1,416)	(5,015)	(142)	(682)	—	(11,405)
Exchange difference	—	93	—	17	6	58	3	—	177
Impairment	—	—	—	—	(1,526)	—	—	—	(1,526)
Closing net book amount	58,254	3,917	28,183	6,514	40,720	1,644	1,363	6,124	146,719
At 31 August 2018									
Cost	60,310	10,640	30,559	10,684	68,037	3,366	4,326	6,124	194,046
Accumulated depreciation	(2,056)	(6,723)	(2,376)	(4,170)	(24,259)	(1,722)	(2,963)	—	(44,269)
Accumulated impairment	—	—	—	—	(3,058)	—	—	—	(3,058)
Net book amount	58,254	3,917	28,183	6,514	40,720	1,644	1,363	6,124	146,719

(a) As at 31 December 2016, 2017 and 2018 and 31 August 2019, land use rights and buildings, machinery and motor vehicles with net book value totalling RMB21,906,000, RMB63,080,000, RMB87,300,000 and RMB57,610,000, respectively, was pledged as collateral for the Group's borrowings (Note 27).

(b) Depreciation of the property, plant and equipment has been charged to profit or loss as follows:

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Cost of sales	7,363	11,606	10,564	6,737	7,649
Administrative expenses	2,459	4,806	7,407	4,668	4,838
	9,822	16,412	17,971	11,405	12,487

(c) In August 2019, the Group signed an agreement with two independent individuals for disposal of a subsidiary with a land use right of RMB27,313,000 and other assets of RMB883,000 at cash consideration of RMB33,000,000, and recognised gain on disposal of RMB4,804,000. As at 31 August 2019, consideration of RMB4,950,000 has been received by the Group. The remaining consideration of RMB28,050,000 was received in the fourth quarter of 2019.

15 LEASE

(a) Lease liabilities

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Lease liabilities				
— Current	1,602	3,508	3,209	3,569
— Non-current	3,092	3,089	1,806	430
	4,694	6,597	5,015	3,999

(b) Amounts recognised in the combined statements of comprehensive income

Depreciation charges were expensed in the following category in the combined statements of comprehensive income.

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Depreciation charge					
— Land use right	339	383	1,613	1,078	1,078
— Leased properties	1,646	2,612	3,819	2,465	2,546
	1,985	2,995	5,432	3,543	3,624
Interests expenses included in finance costs *(Note 10)*	418	397	411	267	191
Expenses related to short-term leases *(Note 6)*	1,571	1,037	76	48	42
	1,989	1,434	487	315	233

The total cash outflow for leases for the years ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2018 and 2019 was RMB3,455,000, RMB3,918,000, RMB4,456,000, RMB2,817,000 and RMB2,765,000 respectively.

16 INTANGIBLE ASSETS

	Trademark	Software	License rights	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016				
Cost	—	32	10,023	10,055
Accumulated amortisation	—	(4)	(1,964)	(1,968)
Net book amount	—	28	8,059	8,087
Year ended 31 December 2016				
Opening balance	—	28	8,059	8,087
Amortisation	—	(7)	(3,298)	(3,305)
Exchange difference	—	—	139	139
Closing net book amount	—	21	4,900	4,921
At 31 December 2016				
Cost	—	32	10,099	10,131
Accumulated amortisation	—	(11)	(5,199)	(5,210)
Net book amount	—	21	4,900	4,921
Year ended 31 December 2017				
Opening balance	—	21	4,900	4,921
Additions	—	219	4,348	4,567
Amortisation	—	(58)	(4,069)	(4,127)
Exchange difference	—	—	74	74
Closing net book amount	—	182	5,253	5,435
At 31 December 2017				
Cost	—	251	12,237	12,488
Accumulated amortisation	—	(69)	(6,984)	(7,053)
Net book amount	—	182	5,253	5,435
Year ended 31 December 2018				
Opening balance	—	182	5,253	5,435
Additions	1,161	134	1,471	2,766
Amortisation	(18)	(117)	(3,050)	(3,185)
Exchange difference	—	—	(94)	(94)
Closing net book amount	1,143	199	3,580	4,922
At 31 December 2018				
Cost	1,161	385	10,271	11,817
Accumulated amortisation	(18)	(186)	(6,691)	(6,895)
Net book amount	1,143	199	3,580	4,922

	Trademark	Software	License rights	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Eight months ended 31 August 2019				
Opening balance	1,143	199	3,580	4,922
Additions	—	—	5,872	5,872
Amortisation	(143)	(82)	(2,974)	(3,199)
Exchange difference	—	—	104	104
Closing net book amount	1,000	117	6,582	7,699
At 31 August 2019				
Cost	1,161	385	11,027	12,573
Accumulated amortisation	(161)	(268)	(4,445)	(4,874)
Net book amount	1,000	117	6,582	7,699
Unaudited:				
Eight months ended 31 August 2018				
Opening balance	—	182	5,253	5,435
Additions	—	134	1,434	1,568
Amortisation	—	(76)	(1,997)	(2,073)
Exchange difference	—	—	(229)	(229)
Closing net book amount	—	240	4,461	4,701
At 31 August 2018				
Cost	—	385	9,283	9,668
Accumulated amortisation	—	(145)	(4,822)	(4,967)
Net book amount	—	240	4,461	4,701

During the years ended 31 December 2016, 2017 and 2018 and eight months ended 31 August 2018 and 2019, amortisation of RMB7,000, RMB58,000 RMB135,000, RMB76,000 and RMB225,000 were charged to administrative expenses and RMB3,298,000, RMB4,069,000 RMB3,050,000, RMB1,997,000 and RMB2,974,000 were charged to cost of sales.

17 DEFERRED INCOME TAX

(a) The analysis of deferred income tax is as follows:

	As at 31 December			As at 31 August
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred income tax assets				
— to be recovered within 12 months	797	2,032	2,453	2,525
— to be recovered after more than 12 months	279	1,356	924	2,229
	1,076	3,388	3,377	4,754
Deferred income tax liabilities				
— to be recovered after more than 12 months	(1,664)	(1,617)	(1,570)	(2,563)
	(588)	1,771	1,807	2,191

The net movements on the deferred income tax are as follows:

	Year ended 31 December			Eight months ended 31 August	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
At beginning of the year/ period	(1,374)	(588)	1,771	1,771	1,807
Tax credited to profit or loss	775	2,403	6	787	370
Exchange difference	11	(44)	30	44	14
At end of the year/period	(588)	1,771	1,807	2,602	2,191

(b) The movements in deferred income tax assets during the years ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2018 and 2019, are as follows:

	Provisions	Deferred revenue	Tax loss	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	337	—	—	337
Tax (charged)/credited to profit or loss	(9)	—	737	728
Exchange difference	11	—	—	11
At 31 December 2016	339	—	737	1,076
Tax credited to profit or loss	1,292	314	750	2,356
Exchange difference	(44)	—	—	(44)
At 31 December 2017	1,587	314	1,487	3,388
Tax (charged)/credited to profit or loss	(233)	239	(47)	(41)
Exchange difference	30	—	—	30
At 31 December 2018	1,384	553	1,440	3,377
Tax credited/(charged) to profit or loss	1,292	204	(133)	1,363
Exchange difference	14	—	—	14
At 31 August 2019	2,690	757	1,307	4,754
Unaudited:				
At 1 January 2018	1,587	314	1,487	3,388
Tax credited/(charged) to profit or loss	584	(56)	227	755
Exchange difference	44	—	—	44
At 31 August 2018	2,215	258	1,714	4,187

(c) The movements in deferred income tax liabilities during the years ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2018 and 2019, are as follows:

	Fair value gains of land
	RMB'000
At 1 January 2016	1,711
Tax credited to profit or loss	(47)
At 31 December 2016	1,664
Tax credited to profit or loss	(47)
At 31 December 2017	1,617
Tax credited to profit or loss	(47)
At 31 December 2018	1,570
Tax charged to profit or loss	993
At 31 August 2019	2,563
Unaudited:	
At 1 January 2018	1,617
Tax credited to profit or loss	(32)
At 31 August 2018	1,585

(d) Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The tax losses with no deferred tax assets recognised are as follows:

	As at 31 December			**As at 31 August**
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year of expiry				
2020	365	365	594	—
2021	—	—	—	—
2022	—	65	65	65
2023	—	—	65	65
2024	—	—	—	36
	365	430	724	166

(e) As at 31 December 2016, 2017 and 2018 and 31 August 2019, the Group has unrecognised deferred income tax liabilities arising from undistributed profits from Kidztech HK to Kidztech Intelligent and unrecognised deferred income tax liabilities arising from undistributed profits from Kidztech Intelligent to its immediate holding company in Hong Kong, totalling RMB4,633,000, RMB7,068,000, RMB6,180,000 and RMB3,713,000, respectively. No provision has been made in respect of such withholding tax as the directors have confirmed that such profits will not be distributed in the foreseeable future. Unremitted earnings in this respect amounted to RMB46,950,000, RMB82,362,000, RMB110,333,000 and RMB41,314,000, respectively.

18 INVENTORIES

	As at 31 December			As at 31 August
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	13,393	18,523	18,768	27,440
Work in progress	971	1,300	691	510
Finished goods	6,021	8,452	10,600	10,696
Packing materials and consumables	1,821	3,937	1,262	3,046
	22,206	32,212	31,321	41,692
Less: provision	(16)	(121)	(109)	(109)
	22,190	32,091	31,212	41,583

Inventories recognised as an expense and cost of sales during the year ended 31 December 2016, 2017 and 2018 and eight months ended 31 August 2018 and 2019 are as following:

	Year ended 31 December			Eight months ended 31 August	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Cost of sales	82,095	107,013	120,935	64,979	86,499
Administrative expenses	4,705	3,889	4,797	1,966	2,762
	86,800	110,902	125,732	66,945	89,261

19 TRADE RECEIVABLES

	As at 31 December			As at 31 August
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	36,407	70,432	93,977	99,332
Less: provision for impairment	(1,725)	(8,295)	(5,359)	(6,478)
	34,682	62,137	88,618	92,854

(a) Ageing analysis of trade receivables based on invoice date is as follows:

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Less than 30 days	16,848	40,371	53,787	52,437
31 days to 120 days	16,114	24,648	35,515	36,144
121 days to 1 year	3,269	5,249	4,393	9,814
1 year to 2 years	176	—	110	667
More than 2 years	—	164	172	270
	36,407	70,432	93,977	99,332

(b) Trade receivables were denominated in following currencies:

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RMB	14,548	54,010	85,242	49,769
USD	19,813	15,452	8,347	48,574
HKD	2,046	970	388	989
	36,407	70,432	93,977	99,332

(c) The carrying amounts of trade receivables approximate their fair values due to their short maturities.

20 PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments	69,558	63,995	73,081	81,769
Deposits *(Note 25(a))*	26,042	2,500	2,962	2,886
Other receivables	2,259	2,173	1,047	1,034
Right to returned goods	375	575	1,067	696
Incurred listing expenses to be capitalised after the Listing	—	—	—	2,697
Receivables related to disposal of a subsidiary *(Note 28)*	—	—	—	28,050
	98,234	69,243	78,157	117,132
Less: non-current portion				
Prepayments for properties, plant and equipment	(59,792)	(50,110)	(57,197)	(57,506)
	38,442	19,133	20,960	59,626

(a) Deposits and other receivables were denominated in following currencies:

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RMB	27,712	4,096	3,026	31,183
HKD	589	577	983	787
	28,301	4,673	4,009	31,970

(b) The carrying amounts of other receivables approximate their fair values due to their short maturities.

21 CASH AND CASH EQUIVALENTS

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at banks	30,988	159,096	188,564	109,637
Cash on hand	108	60	70	111
	31,096	159,156	188,634	109,748

Cash and cash equivalents were denominated in the following currencies:

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RMB	30,311	157,570	186,246	107,405
HKD	214	606	480	870
USD	561	966	1,899	1,464
EUR	10	14	9	9
	31,096	159,156	188,634	109,748

The interest rates of cash and cash equivalent ranges from 0.13% to 1.65% throughout the Track Record Period.

22 RESTRICTED CASH

As at 31 December 2018 and 31 August 2019, the Group placed cash deposit of approximately RMB1,000,000 and RMB1,018,000, respectively, with designated banks as collateral for its bank borrowings. The cash deposit was denominated in RMB, with maturity of 12 months and bore interest at 1.75% per annum. There was no restricted cash as of 31 December 2016 and 2017.

23 COMBINED CAPITAL

As mentioned in Note 1.3, the Historical Financial Information has been prepared on a combined basis. Combined capital as at each balance sheet date represented the combined capital of the companies now comprising the Group after elimination of the inter-company investments.

24 OTHER RESERVES

	Statutory reserve	Capital reserve	Currency Translation Difference	Merger reserve	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Note (d))*	*RMB'000*
At 1 January 2016	1,709	42,815	211	(22,103)	22,632
Transfer to statutory reserve (a)	2,470	—	—	—	2,470
Conversion of limited liability company to joint stock company of a subsidiary (b)	(1,952)	19,523	—	—	17,571
Currency translation difference	—	—	392	—	392
At 31 December 2016	2,227	62,338	603	(22,103)	43,065
At 1 January 2017	2,227	62,338	603	(22,103)	43,065
Transfer to statutory reserve (a)	3,093	—	—	—	3,093
Capital contribution from the then shareholders (c)	—	135,453	—	—	135,453
Currency translation difference	—	—	(2,185)	—	(2,185)
At 31 December 2017	5,320	197,791	(1,582)	(22,103)	179,426
At 1 January 2018	5,320	197,791	(1,582)	(22,103)	179,426
Transfer to statutory reserve (a)	5,656	—	—	—	5,656
Transaction with non-controlling shareholder	—	(20)	—	—	(20)
Currency translation difference	—	—	1,417	—	1,417
At 31 December 2018	10,976	197,771	(165)	(22,103)	186,479
At 1 January 2019	10,976	197,771	(165)	(22,103)	186,479
Transfer to statutory reserve (a)	2,733	—	—	—	2,733
Currency translation difference	—	—	684	—	684
At 31 August 2019	13,709	197,771	519	(22,103)	189,896
Unaudited:					
At 1 January 2018	5,320	197,791	(1,582)	(22,103)	179,426
Transfer to statutory reserve (a)	518	—	—	—	518
Transaction with non-controlling shareholder	—	(20)	—	—	(20)
Currency translation difference	—	—	(115)	—	(115)
At 31 August 2018	5,838	197,771	(1,697)	(22,103)	179,809

(a) Statutory reserve

In accordance with relevant rules and regulations in the PRC and the Company's Articles of Association, companies incorporated in PRC are required to transfer no less than 10% of their profit after taxation calculated under PRC accounting standards and regulations to the statutory reserve fund, until the accumulated total of the fund reaches 50% of their registered capital. The statutory reserve fund can only be used, upon approval by the relevant authority, to offset previous years' losses or to increase the capital of respective companies.

(b) Conversion of limited liability company to joint stock company

During the year ended 31 December 2016, Kidztech Intelligent was converted from a limited liability company to a joint stock company in connection with the proposed listing on NEEQ. Accordingly, the paid-in capital of Kidztech Intelligent was redesignated into share capital while the retained earnings and statutory reserve of Kidztech Intelligent as at the reference date (being 31 December 2015) was redesignated as capital reserve.

(c) During the year ended 31 December 2017, 13,000,000 ordinary shares of Kidztech Intelligent with par value of RMB1 each share were issued at RMB12 per share under a placing agreement to seven independent investors and two key management personnels. Net proceeds of approximately RMB13,000,000 and RMB135,453,000 were credited to share capital and capital reserve, respectively, after deducting share issuance costs of RMB7,547,000.

(d) Merger reserve

In preparation for listing of the shares of Kidztech Intelligent on NEEQ, a reorganisation was conducted in 2015 among certain group entities. Such reorganisation resulted in combination of Kidztech Intelligent and two other group entities which were majority owned by Mr. Yu and Ms. Chen. The difference between the consideration paid for the acquisitions and the share capital of the two group entities were recorded as merger reserve.

25 TRADE AND OTHER PAYABLES

	As at 31 December			As at 31 August
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	10,475	13,623	21,050	31,146
Accrued listing expenses	—	—	—	8,211
Accrued other expenses	4,152	6,096	5,558	8,880
Payroll payable	1,922	3,764	4,065	4,465
Value-added-tax and other tax payables	1,677	2,897	12,095	2,007
Refund liabilities	693	1,111	1,737	1,108
Refundable deposits (a)	25,000	—	—	—
	43,919	27,491	44,505	55,817

(a) Pursuant to an agreement signed between the Group and a third party which is a state-owned company in 2016, Kidztech Infotech, a subsidiary of the Group, would receive loan of RMB25,000,000 from the state-owned company in March 2017 upon the incorporation of Kidztech Infotech. Prior to the setting up of Kidztech Infotech, both parties agreed to pay a refundable deposit of RMB25,000,000 to each other. Deposit paid by the Group and deposit received by the Group were recorded as other receivables and other payables, respectively, as at 31 December 2016. The deposit paid were subsequently refunded to the Group in March 2017. The deposit received from the state-owned company was subsequently injected into Kidztech Infotech as paid-in capital.

(b) Ageing analysis of trade payables based on invoice date is as follows:

	As at 31 December			As at 31 August
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Less than 30 days	6,603	5,390	7,847	9,345
31 days to 120 days	3,236	4,015	5,063	5,454
121 days to 1 year	516	1,780	4,001	12,260
1 year to 2 years	120	2,438	3,455	3,958
More than 2 years	—	—	684	129
	10,475	13,623	21,050	31,146

(c) Trade and other payables were denominated in following currencies:

	As at 31 December			As at 31 August
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RMB	34,440	11,888	18,259	35,361
USD	5,243	7,038	9,850	12,347
HKD	624	1,904	236	1,637
EUR	13	—	—	—
	40,320	20,830	28,345	49,345

(d) The carrying amounts of trade and other payables approximate their fair value due to their short maturities.

26 LICENSE FEE PAYABLE

	As at 31 December			As at 31 August
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
License fee payable				
— Current	2,215	2,576	1,883	2,704
— Non-current	1,741	2,179	868	1,528
	3,956	4,755	2,751	4,232

License fee payables were denominated in the following currencies:

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
USD	3,284	4,413	2,481	4,159
RMB	672	342	270	—
EUR	—	—	—	73
	3,956	4,755	2,751	4,232

27 BANK AND OTHER BORROWINGS

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank borrowings — secured	49,000	49,000	104,000	104,000
Other borrowings — secured (a)	100	41,109	36,189	32,702
	49,100	90,109	140,189	136,702

(a) Other borrowings include loans from non-bank financial institutions and loan extended from a state-owned company to Kidztech Infotech, a group entity (Note 25(a)).

(b) The weighted average effective interest rates as at 31 December 2016, 2017 and 2018 and 31 August 2019 were 5.89%, 5.98%, 6.17% and 6.09%, respectively.

(c) As at 31 December 2016, 2017 and 2018 and 31 August 2019, bank and other borrowings were secured by:

(i) property, plant and equipment (Note 14);

(ii) restricted cash (Note 22);

(iii) personal guarantees provided by Mr. Yu and Ms. Chen and a shareholder of Kidztech Intelligent.

(d) As at 31 December 2017, other borrowings were secured by the equity interests held by Mr. Yu in Kidztech Intelligent. Such collateral were replaced by equity interests held by a shareholder of Kidztech Intelligent from 16 May 2018 onwards.

(e) Bank and other borrowings were denominated in following currencies:

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RMB	49,000	89,000	139,331	136,034
HKD	100	1,109	858	668
	49,100	90,109	140,189	136,702

28 ACQUISITION OF A SUBSIDIARY THAT DOES NOT CONSTITUTE A BUSINESS

In December 2017, the Group acquired a 80% equity interest in Shantou Yudilong, a company incorporated in the PRC. The major asset held by Shantou Yudilong is a land use right.

The following table summarised the consideration paid and the fair value of the assets acquired as at the acquisition date.

	RMB'000
Cash consideration paid	22,800
Recognised amounts of identifiable assets acquired and liabilities assumed:	
	Fair Value
Net identifiable assets acquired:	
Lease prepayments — land use right	28,500
Less: non-controlling interests	(5,700)
Net identifiable assets acquired	22,800

In August 2018, the Group further acquired the remaining 20% equity interest of Shantou Yudilong at cash consideration of RMB5,700,000 from the non-controlling shareholder. Immediately prior to the purchase, the carrying amount of the existing 20% non-controlling interests in Shantou Yudilong was RMB5,680,000. As a result of the transaction, the Group recognised a decrease in non-controlling interests of RMB5,680,000 and a decrease in equity attributable to owners of the Company of RMB20,000.

Disposal

In August 2019, the Group disposed of Shantou Yudilong to two independent third parties at a consideration of RMB33,000,000 and recognised gain on disposal of approximately RMB4,804,000 (Note 9).

29 CASH FLOW INFORMATION

(a) Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations is as follows:

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Profit before income tax	38,664	42,234	41,577	12,582	36,967
Adjustments for:					
— Depreciation of property, plant and equipment	9,822	16,412	17,971	11,405	12,487
— Amortisation of intangible assets	3,305	4,127	3,185	2,073	3,199
— (Reversal of provision)/ provision of financial assets	(281)	6,834	1,324	3,187	1,038
— Impairment losses of mould and machinery	178	1,137	1,526	1,526	2,277
— Provision/(Reversal of provision) of inventory	16	105	(12)	(121)	—
— Financial costs — net	3,638	4,698	7,728	4,462	5,227
— Gain on disposal of a subsidiary	—	—	—	—	(4,804)
— Amortisation of deferred revenue	—	(671)	(668)	(372)	(660)
	55,342	74,876	72,631	34,742	55,731
Changes in working capital:					
— License fee payables	(3,521)	(3,948)	(3,487)	(2,428)	(4,796)
— Inventory	254	(10,006)	891	(31,742)	(10,371)
— Contract liabilities	(540)	675	(334)	490	829
— Trade receivables	1,924	(34,025)	(27,984)	(49,162)	(5,355)
— Prepayments and other receivables	607	19,309	(1,827)	(21,648)	(11,499)
— Trade and other payables	24,680	(16,428)	17,014	8,388	11,312
— Deferred revenue	—	2,767	2,262	—	—
Cash generated from/(used in) operations	78,746	33,220	59,166	(61,360)	35,851

(b) Net debt reconciliation

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

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	31,096	159,156	188,634	109,748
Borrowings — repayable within one year	(49,100)	(90,109)	(140,189)	(136,702)
Restricted cash	—	—	1,000	1,018
Lease liabilities	(4,694)	(6,597)	(5,015)	(3,999)
Net (debt)/cash	(22,698)	62,450	44,430	(29,935)
Cash and cash equivalents	31,096	159,156	188,634	109,748
Restricted cash	—	—	1,000	1,018
Gross debt — fixed interest rates	(53,794)	(81,706)	(104,874)	(103,667)
Gross debt — variable interest rates	—	(15,000)	(40,330)	(37,034)
Net (debt)/cash	(22,698)	62,450	44,430	(29,935)

	Cash and cash equivalents	Restricted cash	Borrowings	Lease liabilities	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Net debt as at 1 January 2016	27,942	—	(29,653)	(6,160)	(7,871)
Cash flows	2,776	—	(19,447)	1,884	(14,787)
Interest expenses	—	—	—	(418)	(418)
Foreign exchange adjustments	378	—	—	—	378
Net debt as at 31 December 2016	31,096	—	(49,100)	(4,694)	(22,698)
Cash flows	130,334	—	(41,009)	2,881	92,206
Addition of lease liabilities	—	—	—	(4,387)	(4,387)
Interest expenses	—	—	—	(397)	(397)
Foreign exchange adjustments	(2,274)	—	—	—	(2,274)
Net debt as at 31 December 2017	159,156	—	(90,109)	(6,597)	62,450
Cash flows	28,000	1,000	(50,080)	4,380	(16,700)
Addition of lease liabilities	—	—	—	(2,409)	(2,409)
Interest expenses	—	—	—	(411)	(411)
Foreign exchange adjustments	1,478	—	—	22	1,500
Net debt as at 31 December 2018	188,634	1,000	(140,189)	(5,015)	44,430
Cash flows	(79,624)	18	3,487	2,723	(73,396)
Addition of lease liabilities	—	—	—	(1,607)	(1,607)
Interest expenses	—	—	—	(191)	(191)
Foreign exchange adjustments	738	—	—	91	829
Net debt as at 31 August 2019	109,748	1,018	(136,702)	(3,999)	(29,935)

	Cash and cash equivalents	Restricted cash	Borrowings	Lease liabilities	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Unaudited:					
Net debt as at 31 December 2017	159,156	—	(90,109)	(6,597)	62,450
Cash flows	(91,352)	1,000	(51,770)	2,769	(139,353)
Interest expenses	—	—	—	(267)	(267)
Foreign exchange adjustments	(199)	—	—	(62)	(261)
Net debt as at 31 August 2018	67,605	1,000	(141,879)	(4,157)	(77,431)

30 COMMITMENTS

(a) Capital commitments

Significant capital expenditures contracted for at the end of the reporting period but not recognised as liabilities was as follows:

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Capital expenditures	4,971	77,689	43,206	50,267

31 RELATED PARTY TRANSACTIONS

(a) Name and relationship with a related party

Name	Relationship
Mr. Yu	Key management personnel of the Group
Ms. Chen	Spouse of Mr. Yu
Shantou Chenghai Changxing Paper Foil Co., Ltd ("Chenghai Changxing")	Company controlled by Mr. Yu's mother

(b) Significant transactions with a related party

Save as disclosed elsewhere in this report, during the years ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2018 and 2019, the Group had the following significant transactions with related parties:

(i) Continuing transactions

	Year ended 31 December			Eight months ended 31 August	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Changxing Paper:					
Interest expenses on lease liabilities	318	257	191	128	81

(ii) Personal guarantee provided by key management personnel

As at 31 December 2017 and 2018 and 31 August 2018, certain of the Group's bank and other borrowings were secured by personal guarantee provided by Mr. Yu and Ms. Chen, and the equity interests held in Kidztech Intelligent held by Mr. Yu (Note 27).

(c) Balance with a related party

As at 31 December 2016, 2017 and 2018 and 31 August 2019, the Group's balance with a related party was as follows.

	As at 31 December			As at 31 August
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Chenghai Changxing:				
Lease deposits included in other deposits *(Note 20)*	328	328	328	328
Lease liabilities	(3,636)	(2,711)	(1,722)	(1,015)

(d) Key management compensation

The compensation paid or payable to the key management during the Track Record Period, excluded those paid to the executive directors which has been disclosed in Note 7, are shown as below.

	Year ended 31 December			Eight months ended 31 August	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Basic salaries, housing funds, other social welfares and benefits	301	440	441	294	292
Pension costs — defined contribution plans	13	19	23	14	18
Total	314	459	464	308	310

32 SUBSEQUENT EVENT

Saved as disclosed elsewhere in this report, subsequent to 31 August 2019, the following subsequent events took place:

(i) The Group has conditionally adopted a share option scheme on 13 February 2020 under which selected participants (including, among others, full-time employees) may be granted options to subscribe for new shares of the Company. As at the date of this report, no share options have been granted under the scheme.

(ii) Since January 2020, the PRC has encountered an outbreak of novel coronavirus ("COVID-19"). As a result, certain measures were undertaken by the PRC central government and various provincial or municipal governments including but not limited to implementation of travel restrictions and extension of national holidays. Pending development of such subsequent non-adjusting event, the Group's financial results may be affected, the extent of which could not be estimated as at the date of this report.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 August 2019 and up to the date of this report. No dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 August 2019.

The following information does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, the reporting accountants of the Company, as set forth in Appendix I to this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial information" and the Accountant's Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on the net tangible assets of our Group attributable to the owners of the Company as at 31 August 2019 as if the Global Offering had taken place on 31 August 2019.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of our Group as at 31 August 2019 or at any future dates following the Global Offering.

	Audited combined net tangible assets of our Group attributable to the owners of our Company as at 31 August 2019	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted combined net tangible assets attributable to the owners of our Company as at 31 August 2019	Unaudited pro forma adjusted net tangible assets per Share	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
	(Note 1)	*(Note 2)*	*(Note 3)*		
Based on the Offer Price of HK$1.17 per Offer Share	285,516	65,616	351,132	0.68	0.75
Based on the Offer Price of HK$1.47 per Offer Share	285,516	88,528	374,044	0.72	0.80
Based on the Offer Price of HK$1.05 per Share, after a Downward Offer Price Adjustment of 10%	285,516	56,680	342,196	0.66	0.73

Notes:

(1) The audited combined net tangible assets attributable to the owners of our Company as at 31 August 2019 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited combined net assets of our Group attributable to the owners of the Company as at 31 August 2019 of approximately RMB293,215,000 adjusted for intangible assets as of 31 August 2019 of RMB7,699,000.

(2) The estimated net proceeds from the Global Offering are based on 88,400,000 Offer Shares and the indicative Offer Price of HK$1.17 per Offer Share and HK$1.47 per Offer Share, being low and high end of the indicative Offer Price range, respectively, and an Offer Price of HK$1.05 per Share, being offer price with downward price adjustment of 10%, and after deduction of the underwriting fees and other related expenses (excluding listing expenses of approximately RMB8,578,000 which has been accounted for in the combined statement of comprehensive income for the eight months ended 31 August 2019).

(3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 520,000,000 Shares were in issue assuming that the Global Offering and the Capitalisation Issue have been completed on 31 August 2019 but take no account of any Shares which may be allotted and issued pursuant to 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 as described in the section headed "Share capital".

(4) No adjustment has been made to the unaudited pro forma adjusted net tangible assets per Share to reflect any trading results or other transactions of the Group entered into subsequent to 31 August 2019.

(5) For the purpose of this unaudited pro forma adjusted net tangible assets, the amounts stated in Renminbi are converted into Hong Kong dollars at a rate of RMB1 to HK$1.1111. No representation is made that RMB amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

B. UNAUDITED PRO FORMA ESTIMATED EARNINGS PER SHARE

The following unaudited pro forma estimated earnings per Share for the year ended 31 December 2019 has been prepared in accordance with Rule 4.29(8) of the Listing Rules and on the basis set out in the note below for the purpose of illustrating the effect of the Global Offering and Capitalisation Issue as if they had taken place on 1 January 2019. The unaudited pro forma estimated earnings per Share has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial results of the Group following the Global Offering and the Capitalisation Issue or for any future periods.

Profit estimate for the year ended 31 December 2019

Estimated consolidated profit attributable to owners of the Company for the year ended 31 December 2019 *(Note 1)*	Not less than RMB33.0 million (approximately HK$36.6 million)
Unaudited pro forma estimated earnings per share for the year ended 31 December 2019 *(Note 2)*	Not less than RMB0.063 (approximately HK$0.070)

Notes:

(1) The bases on which the above profit estimate has been prepared are summarized in Part A of Appendix IIB to this prospectus. The Directors have prepared the estimated consolidated profit attributable to owners of the Company for the year ended 31 December 2019 based on the audited combined results for the eight months ended 31 August 2019 and the unaudited consolidated results based on management accounts of our Group for the four months ended 31 December 2019.

(2) The unaudited pro forma estimated earnings per Share is calculated by dividing the estimated consolidated profit attributable to owners of the Company for the year ended 31 December 2019 by 520,000,000 shares that had been assumed to be in issue throughout the year ended 31 December 2019. The calculation of the estimated earnings per Share does not take into account any Shares which may be issued upon the exercise of the options which may be granted under the Share Option Scheme and any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be granted and issued or repurchased by the Company pursuant to the general mandate to issue Shares and the general mandate to repurchase Shares.

(3) For the purpose of this unaudited pro forma estimated earnings per Share, the amounts stated in RMB are converted into Hong Kong dollars at a rate of RMB1.00 to HK$1.1111. No representation is made that RMB amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

C. REPORT FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Kidztech Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Kidztech Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 31 August 2019, the unaudited pro forma estimate earnings per share for the year ended 31 December 2019 and related notes (the "Unaudited Pro Forma Financial Information") as set out in Part A and B of Appendix IIA to the Company's prospectus dated 28 February 2020, in connection with the proposed initial public offering of the shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described in Part A and B of Appendix IIA to the Company's prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at 31 August 2019 and the estimated earnings per share of the Company for the year ended 31 December 2019 as if the proposed initial public offering had taken place at 31 August 2019 and 1 January 2019, respectively. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial information as at 31 August 2019, on which an accountant's report has been published, while information about the Group's estimated consolidated profit attributable to owners of the Company has been extracted by the directors from the Group's profit estimate for the year ended 31 December 2019, on which a letter on profit estimate has been issued by us as set out in Appendix IIB to the Company's prospectus.

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Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at 31 August 2019 or 1 January 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 February 2020

The estimated consolidated profit attributable to owners of our Company for the year ended 31 December 2019 is set out in the paragraph headed "Profit estimate for the year ended 31 December 2019" under the section headed "Financial information" in this prospectus.

A. BASES

Our Directors have prepared the estimate of the consolidated profit attributable to owners of our Company for the year ended 31 December 2019 (the "Profit Estimate") on the basis of (i) the audited combined results of our Group for the eight months ended 31 August 2019; and (ii) the unaudited consolidated results based on the management accounts of our Group for the four months ended 31 December 2019. 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 out in note 2 to the Accountant's Report set out in Appendix I to this prospectus.

B. LETTER FROM THE REPORTING ACCOUNTANTS

The following is the text of a letter received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

羅兵咸永道

The Board of Directors
Kidztech Holdings Limited

CMBC International Capital Limited

28 February 2020

Dear Sirs,

Kidztech Holdings Limited (the "Company")

Profit Estimate for Year Ended 31 December 2019

We refer to the estimate of the consolidated profit attributable to owners of the Company for the year ended 31 December 2019 (the "Profit Estimate") set forth in the section headed Financial Information in the prospectus of the Company dated 28 February 2020 (the "Prospectus").

Directors' Responsibilities

The Profit Estimate has been prepared by the directors of the Company based on the audited combined results of the Company and its subsidiaries (collectively referred to as the "Group") for the 8 months ended 31 August 2019 and the unaudited consolidated results based on the management accounts of the Group for the 4 months ended 31 December 2019.

The Company's directors are solely responsible for the Profit Estimate.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

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.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion 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 IIB to 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 accountant's report dated 28 February 2020, the text of which is set out in Appendix I to the Prospectus.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

C. LETTER FROM THE SOLE SPONSOR

The following is the text of a letter, prepared for inclusion in this prospectus by the Sole Sponsor, in connection with the estimate of the consolidated profit attributable to the owners of our Company for the year ended 31 December 2019.

CMBC CAPITAL

45/F, One Exchange Square
8 Connaught Place
Central, Hong Kong

28 February 2020

The Board of Directors
Kidztech Holdings Limited

Dear Sirs

We refer to the estimate of the consolidated profit attributable to the owners of Kidztech Holdings Limited (the "Company", together with its subsidiaries, hereinafter collectively referred to as the "Group") for the year ended 31 December 2019 (the "Profit Estimate") as set out in the prospectus issued by the Company dated 28 February 2020 (the "Prospectus").

The Profit Estimate, for which the directors of the Company (the "Directors") are solely responsible, has been prepared by the Directors, based on (i) the audited combined results for the eight months ended 31 August 2019; and (ii) the unaudited consolidated results of the Group based on the management accounts for the four months ended 31 December 2019.

We have discussed with you the bases upon which the Profit Estimate has been made. We have also considered the letter dated 28 February 2020 addressed to you and us from PricewaterhouseCoopers 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 you and reviewed by PricewaterhouseCoopers, we are of the opinion that the Profit Estimate, for which our Directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully
For and on behalf of
CMBC International Capital Limited
Steven Kwok
Executive Director

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 company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 25 October 2019 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "**Companies Law**"). The Company's constitutional documents consist of its Memorandum of Association (the "**Memorandum**") and its Articles of Association (the "**Articles**").

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, *inter alia*, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 13 February 2020 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) Classes of shares

The share capital of the Company consists of ordinary shares.

(ii) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may by ordinary resolution of its members:

(i) increase its share capital by the creation of new shares;

(ii) consolidate all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

(iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or

(v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares. The register of members in respect of its listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Companies Law in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

(v) Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

The board may accept the surrender for no consideration of any fully paid share.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to 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 the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) Directors

(i) Appointment, retirement and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

(aa) he resigns by notice in writing delivered to the Company;

(bb) he becomes of unsound mind or dies;

(cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) he is prohibited from being a director by law; or (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with 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 delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount to their nominal value.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iv) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making 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 past Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

The board may resolve to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of the Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than the Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, the Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (ii) any trustee of any trust to whom shares are to be allotted and issued by the Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

(vi) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of 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 therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or 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, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or

(ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(d) Alterations to constitutional documents and the Company's name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) Meetings of members

(i) Special and ordinary resolutions

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) Voting rights and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons 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 pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings and extraordinary general meetings

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers; and

(ee) the fixing of the remuneration of the directors and of the auditors.

(v) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) Proxies

Any member of 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 is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditor at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

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.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or 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.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

(i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and

(ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by 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 a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "**Court**"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to the Tax Concessions Law of the Cayman Islands, the Company has obtained an undertaking:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 30 October 2019.

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 executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

The notice of registered office is a matter of public record. A list of the names of the current directors and alternate directors (if applicable) is made available by the Registrar of Companies for inspection by any person on payment of a fee. The register of mortgages is open to inspection by creditors and members.

Members of the Company have no general right under the Companies Law 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.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. The register of members shall contain such particulars as required by Section 40 of the Companies Law. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(p) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(t) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

(u) Economic Substance Requirements

Pursuant to the International Tax Cooperation (Economic Substance) Law, 2018 of the Cayman Islands ("**ES Law**") that came into force on 1 January 2019, a "relevant entity" is required to satisfy the economic substance test set out in the ES Law. A "relevant entity" includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Law.

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "B. Documents available for inspection" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 25 October 2019. Our Company has established a principal place of business in Hong Kong at Room 802, 8/F, Inter-Continental Plaza, 94 Granville Road, Tsim Sha Tsui East, Kowloon, Hong Kong and was registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 4 December 2019. Mr. Pui has been appointed as the authorised representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong. The address for service of process and notices in Hong Kong is Room 802, 8/F, Inter-Continental Plaza, 94 Granville Road, Tsim Sha Tsui East, Kowloon, Hong Kong.

As our Company was incorporated in the Cayman Islands, it is subject to the Companies Law and its constitution comprises the Memorandum and the Articles. A summary of various provisions of its constitution and relevant aspects of the Companies Law is set out in Appendix III to this prospectus.

2. Changes in share capital of our Company

(a) As at the date of incorporation, our Company had an authorised share capital of HK$380,000 divided into 380,000,000 Shares of HK$0.001 each. On the same date, one fully-paid Share was allotted and issued to the initial subscriber and was subsequently transferred to Keen Pacemaker.

(b) On 15 November 2019, the Company allotted and issued an aggregate of 77,999,999 Shares at par to the offshore holding companies in the following manner:

Name of shareholders	Number of Shares allotted
Top Synergy	37,400,000
Motivational Mathematics	10,000,000
Charming Flair	6,500,000
Cheerful Highflyer	2,254,000
Keen Pacemaker	3,899,999
Iconic Builder	3,245,399
Youthful Jaguar	3,000,000
Top Alliance	2,600,000
Courageous Soul	2,440,000
Superior Nature	2,360,000
Humble Windsurfer	1,751,092
Darren Technology	1,349,509
Magical Joint	700,000
Captivating Snow	250,000
Wondrous Diamond	250,000
Total	**77,999,999**

(c) Pursuant to the written resolutions of the existing Shareholders passed on 13 February 2020, the authorised share capital of our Company was increased from HK$380,000 to HK$5,000,000 by the creation of an additional 4,620,000,000 Shares.

(d) Immediately following completion of the Global Offering and the Capitalisation Issue but 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 or any of the Adjustment Options (whichever is applicable), the authorised share capital of our Company will be HK$5,000,000 divided into 5,000,000,000 Shares, of which 520,000,000 Shares have been allotted and issued, fully paid or credited as fully paid, and 4,480,000,000 Shares will remain unissued.

(e) Other than pursuant to the Global Offering, 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 of the Adjustment Options (whichever is applicable) and the general mandate to issue Shares referred to in the paragraph headed "3. Written resolutions of the existing Shareholders" in this appendix, our Company does not have any present intention to issue any part of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in a general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this prospectus, there has been no alteration in the share capital of our Company since the date of its incorporation.

3. Written resolutions of the existing Shareholders

On 13 February 2020, resolutions in writing were passed by the existing Shareholders pursuant to which, among other things:

(a) our Company conditionally approved and adopted the amended and restated Memorandum and the Articles, the terms of which are summarised in Appendix III to this prospectus, with effect from the Listing Date;

(b) the authorised share capital of our Company be increased from HK$380,000 divided into 380,000,000 Shares of HK$0.001 each to HK$5,000,000 divided into 5,000,000,000 Shares of HK$0.001 each by the creation of an additional 4,620,000,000 Shares, ranking *pari passu* with the existing Shares in all respects;

(c) conditional on (i) the Listing Committee granting the approval for the listing of, and permission to deal in, the Shares in issue and Shares to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the exercise of options which may be granted under the Share Option Scheme and under any of the Adjustment Options (whichever is applicable)); (ii) our Company having submitted to the HKSCC all requisite documents to enable the Shares to be admitted to trade on the Stock Exchange; (iii) the Offer Price (as defined and to be determined in the manner set out in this Prospectus) having been duly determined and the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and (iv) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including the waiver of any conditions(s) by the Sole Global Coordinator for itself and on behalf of the Underwriters) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before the date falling 30 days after the date of this prospectus:

(i) the Global Offering (including the grant of the Adjustment Options) was approved and our Directors were authorised to (1) effect the same by doing all things and executing all documents in connection with or incidental to the Global Offering and the Adjustment Options with such amendments or modifications (if any) as considered necessary or appropriate; and (2) allot and issue the Offer Shares pursuant to the Global Offering to rank *pari passu* with the then existing Shares in all respects and such number of Shares as may be allotted and issued pursuant to the exercise of any of the Adjustment Options;

(ii) the grant of the Over-allotment Option was approved and that any of our Directors was authorised to allot and issue up to 13,260,000 Shares at the Offer Price pursuant to the exercise of the Over-allotment Option;

(iii) the grant of the Offer Size Adjustment Option was approved and that any of our Directors was authorised to allot and issue up to 13,260,000 Shares at the Offer Price pursuant to the exercise of the Offer Size Adjustment Option;

(iv) the rules of the Share Option Scheme, the principal terms of which are set out in the sub-paragraph headed "1. Share Option Scheme" under the paragraph headed "D. Other information" in this appendix below, were approved and adopted and our Directors were authorised, subject to the terms and conditions of the Share Option Scheme, (1) administer the Share Option Scheme; (2) modify or amend the rules of the Share Option Scheme from time to time as may be acceptable or not objected to by the Stock Exchange; and (3) grant options to subscribe for Shares and to allot, issue and deal with the Shares pursuant to the exercise of subscription rights attaching to any options which may be granted under the Share Option Scheme; and (4) take all such actions as they consider necessary or desirable to implement the Share Option Scheme;

(v) conditional on the share premium account of our Company being credited as a result of the Global Offering, our Directors were authorised to capitalise an amount of HK$353,600 standing to the credit of the share premium account of our Company and to appropriate such amount as capital to pay up in full at par 353,600,000 Shares for allotment and issue to the persons whose names appear on the register of members of our Company at the close of business on the date this resolution is passed in proportion (as nearly as possible without involving fractions) to their then existing shareholdings in our Company, each ranking *pari passu* in all respects with the then existing issued Shares, and our Directors were authorised to give effect to such capitalisation and distributions and the Capitalisation Issue was approved;

(d) conditional upon the fulfilment of the conditions stated in the paragraph headed "Conditions of the Global Offering" under the section headed "Structure and conditions of the Global Offering" in this prospectus and subject to paragraph (iii) below, and pursuant to the Listing Rules, a general mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue or an issue of Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme or any share option scheme of our Company; any scrip dividend scheme or similar arrangement in accordance with the Articles or pursuant to a specific authority granted by the Shareholders in general meeting or pursuant to the Global Offering, Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such securities convertible into Shares, and to make or grant offers, agreements and options which might require the exercise of such power, not exceeding 20% of the total number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and any of the Adjustment Options (whichever is applicable), such mandate to remain in effect until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of our Company;

(ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or

(iii) the time when such mandate is varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting;

(e) conditional upon the fulfilment of the conditions stated in the paragraph headed "Conditions of the Global Offering" under the section headed "Structure and conditions of the Global Offering" in this prospectus, a general mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase on the Stock Exchange and/or on any other stock exchange(s) on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and/or the requirements of the Listing Rules (or of any other stock exchange) as amended from time to time, such number of Shares as will represent up to 10% of the total number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and any of the Adjustment Options (whichever is applicable), such mandate to remain in effect until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of our Company;

(ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or

(iii) the time when such mandate is varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting; and

(f) the general mandate mentioned in sub-paragraph (d) above was extended by the addition to the number of Shares which may be allotted or agreed to be allotted by our Directors pursuant to such general mandate of an amount representing the total number of Shares repurchased by our Company pursuant to the mandate to repurchase Shares referred to in sub-paragraph (e) above, provided that such extended amount shall not exceed 10% of the total number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

4. Reorganisation

In preparing for Listing, the companies comprising our Group underwent our Reorganisation to rationalise the corporate structure of our Group, details of which are set out in the section headed "History, Reorganisation and corporate structure" in this prospectus. Following our Reorganisation, our Company became the holding company of our Group.

Diagrams showing our Group structure after our Reorganisation and immediately upon completion of the Global Offering and the Capitalisation Issue, but without taking into account of Shares that may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and any of the Adjustment Options (whichever is applicable), are set out in the section headed "History, Reorganisation and corporate structure" in this prospectus.

5. Changes in share capital of subsidiaries

The subsidiaries of our Company are listed in the Accountant's Report, the text of which is set out in Appendix I to this prospectus.

Save as disclosed in the paragraph headed "Reorganisation" in this appendix and in the section headed "History, Reorganisation and corporate structure" in this prospectus, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

6. Repurchase by our Company of our own securities

This section contains information required by the Stock Exchange to be included in this prospectus concerning the repurchase of Shares by our Company.

(1) Provisions of the Listing Rules

The Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, a summary of which is set out below:

(i) Shareholders' approval

The Listing Rules provide that all proposed repurchases of shares, which must be fully paid up in the case of shares, by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to the written resolutions passed by the existing Shareholders on 13 February 2020, a general unconditional mandate (the "**Repurchase Mandate**") was granted to our Directors authorising them to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the total number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and any of the Adjustment Options (whichever is applicable) and the Repurchase Mandate shall remain in effect until whichever is the earliest of the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held or the time when the Repurchase Mandate is revoked or varied by an ordinary resolution of our Shareholders in a general meeting.

(ii) Source of funds

Any repurchase by our Company must be funded out of funds legally available for the purpose in accordance with the Articles, the applicable laws of the Cayman Islands and the Listing Rules. Our Company may not repurchase its own Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Any repurchases by our Company may be made out of profits, share premium or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase and, in the case of any premium payable on the repurchase, out of profits of our Company or out of our Company's share premium account before or at the time the Shares are repurchased. Subject to the Companies Law, a repurchase of Shares may also be made out of capital.

(iii) Connected parties

The Listing Rules prohibit our Company from knowingly repurchasing the Shares on the Stock Exchange from a "core connected person" (as defined in the Listing Rules), which includes a Director, chief executive or substantial Shareholder of our Company or any of our subsidiaries or a close associate (as defined in the Listing Rules) of any of them and a core connected person shall not knowingly sell Shares to our Company on the Stock Exchange.

(2) Exercise of the Repurchase Mandate

On the basis of 520,000,000 Shares in issue immediately after completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares that may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and any of the Adjustment Options (whichever is applicable)), our Directors would be authorised under the Repurchase Mandate to repurchase up to 10% of the total number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue during the period in which the Repurchase Mandate remains in force. Any Shares repurchased pursuant to the Repurchase Mandate must be fully paid up.

(3) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and Shareholders for our Directors to have a general authority from Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of our Company's net asset value and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

(4) Funding of repurchases

In repurchasing the Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

Our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(5) General

None of our Directors or to the best of their knowledge, having made all reasonable enquiries, any of their close associates, has any present intention to sell any Shares to our Company if the Repurchase Mandate is exercised.

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 Listing Rules, the Articles and the applicable law and regulations from time to in force in the Cayman Islands.

If, as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. In certain circumstances, a Shareholder or a group of Shareholders acting in concert (as defined in the Takeovers Code) depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase.

To the best knowledge and belief of our Directors, Mr. Yu and Ms. Chen will be deemed to be interested in 206,946,667 Shares through its controlled corporation under the SFO, representing approximately 39.80% of the total number of issued Shares following the completion of the Global Offering and the Capitalisation Issue. In the event that our Directors should exercise in full the Repurchase Mandate, such interests will be increased to approximately 44.22% of the total number of issued Shares, which would trigger an obligation to make a mandatory offer under the Takeovers Code. Our Directors have no present intention to repurchase the Shares to the extent that will trigger the obligation under the Takeovers Code for Mr. Yu and Ms. Chen to make a mandatory offer. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules). No core connected person (as defined in the Listing Rules) has notified our Company that he/she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by our Group within the two years preceding the date of this prospectus and are or may be material in relation to the business of our Company taken as a whole:

(a) the equity transfer agreement dated 13 August 2018 entered into between Mr. Huang Wensheng (黃文生) and Kidztech Intelligent, pursuant to which Kidztech Intelligent acquired 20% equity interest in Shantou Yudilong from Mr. Huang Wensheng (黃文生) at a consideration of RMB5,700,000;

(b) the equity transfer agreement dated 26 August 2019 entered into between Mr. Wang Chuanghong (王創宏) and Kidztech Intelligent, pursuant to which Mr. Wang Chuanghong (王創宏) acquired 80% equity interest in Shantou Yudilong from Kidztech Intelligent at a consideration of RMB26,400,000;

(c) the equity transfer agreement dated 28 August 2019 entered into between Mr. Zhu Jianyong (朱健泳) and Kidztech Intelligent, pursuant to which Mr. Zhu Jianyong (朱健泳) acquired 20% equity interest in Shantou Yudilong from Kidztech Intelligent at a consideration of RMB6,600,000;

(d) the equity transfer agreement dated 18 December 2019 entered into between WFOE and Old PRC Holdco, pursuant to which WFOE acquired 0.8631% equity interest in New PRC Holdco from Old PRC Holdco at a consideration of RMB961,851;

(e) the equity transfer agreement dated 18 December 2019 entered into between WFOE and Ms. Ng, pursuant to which WFOE acquired 0.1269% equity interest in New PRC Holdco from Ms. Ng at a consideration of RMB141,403;

(f) the Deed of Indemnity;

(g) the Deed of Non-competition; and

(h) the Hong Kong Underwriting Agreement.

2. Intellectual property rights of our Group

(a) Trademarks

As at the Latest Practicable Date, our Group had registered the following trademarks that are material to the business of our Group:

Trademark	Place of registration	Registered owner	Class(es)	Registration number(s)	Expiry date(s)
	Japan	Kidztech HK	28	5547269	27 December 2022
	Russia	Kidztech HK	Not mentioned in the certificate	489091	7 April 2022
	Mexico	Kidztech HK	28	1319391	20 May 2025

Trademark	Place of registration	Registered owner	Class(es)	Registration number(s)	Expiry date(s)
	Korea	Kidztech HK	28	40–0961046	28 March 2023
	United Arab Emirates	Kidztech HK	28	172946	2 May 2022
	Turkey	Kidztech HK	28	2012 47586-Ticaret	23 May 2022
	Malaysia	Kidztech HK	28	2012011033	29 June 2022
	Hong Kong	Kidztech HK	28	302048616	4 October 2021
	Singapore	Kidztech HK	28	T1206057A	27 April 2022
	European Union	Kidztech HK	28	010844629	27 April 2022
	Australia	Kidztech HK	28	1488006	27 April 2022
	PRC	Kidztech HK	28	10647259	13 May 2023
	US	Kidztech HK	28	5599068	5 November 2028
HÄNZ	US	Kidztech Intelligent	9	4527086	5 May 2024

Trademark	Place of registration	Registered owner	Class(es)	Registration number(s)	Expiry date(s)
	US	Kidztech HK	28	5759287	20 May 2029
Inventors Lab	US	Kidztech Intelligent	9	4794025	17 August 2025
奇智宝宝	PRC	Kidztech Intelligent	14	20350826	6 August 2027
奇智宝宝	PRC	Kidztech Intelligent	14	20350682	6 August 2027
奇士达 QISHIDA	PRC	Kidztech Intelligent	42, 41, 38, 37, 36, 28	16806564, 16806565, 16806566, 16806567, 16806568, 16806569	20 June 2026
KIDZ TECH	PRC	Kidztech Intelligent	12	35412028	20 September 2029
Hänz	PRC	Kidztech Intelligent	16	35419547	20 August 2029
Hänz	PRC	Kidztech Intelligent	5	35411383	13 November 2029
Hänz	PRC	Kidztech Intelligent	28	35424046	20 October 2029
KIDZ TECH	PRC	Kidztech Intelligent	5	35405834	27 November 2029
KIDZ TECH	PRC	Kidztech Intelligent	10	35425602	27 November 2029

As at the Latest Practicable Date, our Group had applied for the registration of the following trademarks that are material to the business of our Group:

Trademark	Place of registration	Name of applicant	Class(es)	Date of application	Application number(s)
	Hong Kong	Kidztech HK	28, 35	30 October 2019	305099077
	Hong Kong	Kidztech HK	28, 35	19 November 2019	305116491
	Hong Kong	Kidztech HK	28, 35	19 November 2019	305116428
	PRC	Kidztech Intelligent	28	17 October 2019	41689102
	PRC	Kidztech Intelligent	28	17 October 2019	41693388
	PRC	Kidztech Intelligent	28	17 October 2019	41709324

(b) Patents

As at the Latest Practicable Date, our Group was the registered proprietor and beneficial owner of the following patents that are material to the business of our Group:

Type	Patent number	Patent	Name of registered proprietor	Place of registration	Date of application	Expiry date
Utility model	ZL201820250333.3	An amplifying circuit capable of fast switching or reverse rotation for toy motor	Kidztech Intelligent	PRC	12 February 2018	11 February 2028
Utility model	ZL201820250358.3	A pressing device for conductive toy track	Kidztech Intelligent	PRC	12 February 2018	11 February 2028
Utility model	ZL201820250380.8	An injection molding machine mixing mechanism capable of accurately adding secondary material	Kidztech Intelligent	PRC	12 February 2018	11 February 2028
Utility model	ZL201721753740.8	A gear shifting mechanism of remote controller for remote control vehicle	Kidztech Intelligent	PRC	15 December 2017	14 December 2027
Utility model	ZL201721754747.1	An adaptive charging current charging circuit	Kidztech Intelligent	PRC	15 December 2017	14 December 2027

Type	Patent number	Patent	Name of registered proprietor	Place of registration	Date of application	Expiry date
Utility model	ZL201721754749.0	An improved toy car demonstration chip switching circuit	Kidztech Intelligent	PRC	15 December 2017	14 December 2027
Utility model	ZL201721756478.2	A toy car with multi-angle flip function	Kidztech Intelligent	PRC	15 December 2017	14 December 2027
Utility model	ZL201721757335.3	A toy car with switch dustproof function	Kidztech Intelligent	PRC	15 December 2017	14 December 2027
Utility model	ZL201721757344.2	A toy car with waterproof function	Kidztech Intelligent	PRC	15 December 2017	14 December 2027
Design	ZL201730641637.3	A toy car	Kidztech Intelligent	PRC	15 December 2017	14 December 2027
Utility model	ZL201620055279.8	A new type of toy car splicing track	Kidztech Intelligent	PRC	20 January 2016	19 January 2026
Utility model	ZL201521016103.3	A new type of amphibious toy car	Kidztech Intelligent	PRC	8 December 2015	7 December 2025
Utility model	ZL201521016117.5	A new type of toy remote control car	Kidztech Intelligent	PRC	8 December 2015	7 December 2025
Utility model	ZL201521016139.1	Intelligent inductive shooting toy	Kidztech Intelligent	PRC	8 December 2015	7 December 2025
Utility model	ZL201521016147.6	A new type of double-sided toy stunt car	Kidztech Intelligent	PRC	8 December 2015	7 December 2025
Utility model	ZL201521016177.7	A new toy car remote controller	Kidztech Intelligent	PRC	8 December 2015	7 December 2025
Design	ZL201530458330.0	A toy car	Kidztech Intelligent	PRC	16 November 2015	15 November 2025
Design	ZL201530458345.7	A toy (rotary remote control)	Kidztech Intelligent	PRC	16 November 2015	15 November 2025
Design	ZL201530458354.6	A toy (intelligent sensor monster gun)	Kidztech	PRC	16 November 2015	15 November 2025
Design	ZL201530458378.1	A toy (smart high-speed amphibious stunt car)	Kidztech Intelligent	PRC	16 November 2015	15 November 2025
Design	ZL201530458380.9	A toy (rotary bouncing double-sided stunt car)	Kidztech Intelligent	PRC	16 November 2015	15 November 2025
Utility model	ZL201420237354.3	A new type of toy drum	Kidztech Intelligent	PRC	9 May 2014	8 May 2024

Type	Patent number	Patent	Name of registered proprietor	Place of registration	Date of application	Expiry date
Design	201430123477.X	A toy (Lele Water Cube ZJ031)	Kidztech Intelligent	PRC	8 May 2014	7 May 2024
Design	201430123614.X	A toy (fun loading and unloading car)	Kidztech Intelligent	PRC	8 May 2014	7 May 2024
Utility model	ZL201420229813.3	An electronic toy crab	Kidztech Intelligent	PRC	6 May 2014	5 May 2024
Utility model	ZL201420224419.0	A new type of toy hand drum	Kidztech Intelligent	PRC	4 May 2014	3 May 2024
Utility model	ZL201420224462.7	A new type of children's story machine	Kidztech Intelligent	PRC	4 May 2014	3 May 2024
Utility model	ZL201420224673.0	A story machine for child learning	Kidztech Intelligent	PRC	4 May 2014	3 May 2024
Design	201430111495.6	A toy (musical yellow duck)	Kidztech Intelligent	PRC	30 April 2014	29 April 2024
Design	201430111584.0	A toy (mini baby duck)	Kidztech Intelligent	PRC	30 April 2014	29 April 2024
Design	ZL201430090257.1	A toy remote control	Kidztech Intelligent	PRC	15 April 2014	14 April 2024
Design	ZL201330396486.1	A toy (Lele rabbit story machine)	Kidztech Intelligent	PRC	19 August 2013	18 August 2023
Design	ZL201330336198.7	A toy (Lele Happy World)	Kidztech Intelligent	PRC	18 July 2013	17 July 2023
Design	201330182908.5	A toy car (inertial music small police car)	Kidztech Intelligent	PRC	16 May 2013	15 May 2023
Design	201330182914.0	A toy car (inertial music fire truck)	Kidztech Intelligent	PRC	16 May 2013	15 May 2023
Design	201330182928.2	A toy car (inertial music engineering car)	Kidztech Intelligent	PRC	16 May 2013	15 May 2023
Design	201330183281.5	A toy car (inertial music bus)	Kidztech Intelligent	PRC	16 May 2013	15 May 2023
Design	201330183377.1	A toy car (inertial music sports car)	Kidztech Intelligent	PRC	16 May 2013	15 May 2023
Design	201330183378.6	A toy car (inertial music ambulance)	Kidztech Intelligent	PRC	16 May 2013	15 May 2023
Invention	ZL201310039683.7	A single propeller helicopter with front lateral propeller	Kidztech Intelligent	PRC	1 February 2013	31 January 2033
Design	ZL201230209227.9	A toy remote control	Kidztech Intelligent	PRC	30 May 2012	29 May 2022
Utility	ZL201120427183.7	A toy plug-in battery box structure	Kidztech Intelligent	PRC	2 November 2011	1 November 2021

Type	Patent number	Patent	Name of registered proprietor	Place of registration	Date of application	Expiry date
Design	ZL201130348626.9	A toy car base	Kidztech Intelligent	PRC	8 October 2011	7 October 2021
Design	ZL201130348636.2	A toy car (A08)	Kidztech Intelligent	PRC	8 October 2011	7 October 2021
Design	ZL201130348651.7	A toy car (tip A07)	Kidztech Intelligent	PRC	8 October 2011	7 October 2021
Design	ZL201130348700.7	A toy car (A01)	Kidztech Intelligent	PRC	8 October 2011	7 October 2021
Design	ZL201130348717.2	A toy car (A04)	Kidztech Intelligent	PRC	8 October 2011	7 October 2021
Design	ZL201130348781.0	A toy car (A02)	Kidztech Intelligent	PRC	8 October 2011	7 October 2021
Design	ZL201130348812.2	A toy car (pressing car A05)	Kidztech Intelligent	PRC	8 October 2011	7 October 2021
Design	ZL201130348832.X	A toy car (A09)	Kidztech Intelligent	PRC	8 October 2011	7 October 2021
Design	ZL201130348990.5	A toy car (Jeep A06)	Kidztech Intelligent	PRC	8 October 2011	7 October 2021
Design	ZL201130348992.4	A toy car (shovel car A03)	Kidztech Intelligent	PRC	8 October 2011	7 October 2021

As at the Latest Practicable Date, our Group had applied for the registration of the following patent:

Type	Application number	Patent	Name of applicant	Place of registration	Date of application
Invention	201810191312.3	A method for manufacturing bright metal effect toy car ABS injection car shell and car shells obtained by the method	Kidztech Intelligent	PRC	8 March 2018

(c) Software copyrights

As at the Latest Practicable Date, our Group was the registered proprietor and beneficial owner of the following software copyrights in the PRC that are material to the business of our Group:

Name of software	Registration number	Method of obtaining the copyright	Name of registered proprietor	Date of registration
Kidztech Intelligent Technology Co. Ltd. Intelligent device management platform Android version software (Abbreviation: Kidztech Intelligent) V2.0	2019SR1456143	Originally owned by our Group	Kidztech Intelligent	16 October 2019
Kidztech Intelligent Technology Co. Ltd. Intelligent device management platform IOS version software (Abbreviation: Kidztech Intelligent) V2.0	2019SR1456138	Originally owned by our Group	Kidztech Intelligent	16 October 2019
Kidztech Intelligent Technology Co. Ltd. Intelligent device management platform IOS version software (Abbreviation: Kidztech Intelligent) V1.0	2017SR257716	Originally owned by our Group	Kidztech Intelligent	12 June 2017
Kidztech Intelligent Technology Co. Ltd. Intelligent device management platform Android version software (Abbreviation: Kidztech Intelligent) V1.0	2017SR290888	Originally owned by our Group	Kidztech Intelligent	20 June 2017
Toy trading platform based on O2O mode (Abbreviation: toy trading O2O) V1.0	2016SR067456	Transferred to our Group	Kidztech Intelligent	1 April 2016
Intelligent baby (e-commerce & social) mobile internet client software (Abbreviation: Intelligent baby O2O mobile client) V1.0	2015SR291280	Originally owned by our Group	Kidztech Intelligent	31 December 2015

(d) Other copyrights

As at the Latest Practicable Date, our Group was the registered proprietor and beneficial owner of the following other copyrights in the PRC that are material to the business of our Group:

Name of work	Registration number	Type of work	Name of registered proprietor	Date of registration
Lele Jazz drum	國作登字–2016-F-00283626	Artwork	Kidztech Intelligent	6 September 2016
Intelligent baby watch	粵作登字–2016-J-00000286	Engineering design drawings, product design drawings	Kidztech Intelligent	10 August 2016
Toy (Lele Cube ZJ031)	國作登字–2016-F-00283622	Artwork	Kidztech Intelligent	6 September 2016
Toy (Fun loading and unloading car)	國作登字–2016-F-00283623	Artwork	Kidztech Intelligent	6 September 2016
Toy (Mini baby duck)	國作登字–2016-F-00283621	Artwork	Kidztech Intelligent	6 September 2016
Toy (Music yellow duck)	國作登字–2016-F-00283624	Artwork	Kidztech Intelligent	6 September 2016
Toy (Rotating bounce double-sided stunt car)	國作登字–2016-F-00283633	Artwork	Kidztech Intelligent	6 September 2016
Toy (Intelligent high speed amphibious stunt car)	國作登字–2016-F-00283630	Artwork	Kidztech Intelligent	6 September 2016
Toy (Rotary remote control)	國作登字–2016-F-00283632	Artwork	Kidztech Intelligent	6 September 2016
Toy (Intelligent sensor monster gun)	國作登字–2016-F-00283631	Artwork	Kidztech Intelligent	6 September 2016
Toy car	國作登字–2016-F-00283629	Artwork	Kidztech Intelligent	6 September 2016
Baby rabbit story machine	國作登字–2016-F-00283628	Artwork	Kidztech Intelligent	6 September 2016
Yellow duck hand drum	國作登字–2016-F-00283627	Artwork	Kidztech Intelligent	6 September 2016
Lele rabbit story machine	國作登字–2016-F-00283625	Artwork	Kidztech Intelligent	22 April 2016

(e) Domain names

As at the Latest Practicable Date, our Group was the owner of the following domain names which are material to the business of our Group:

Registered owner	Domain name	Registration date	Expiry date
Kidztech HK	www.kidztech.net	20 July 2011	20 July 2020
Kidztech Intelligent	奇士達.com	28 April 2015	28 April 2020
Kidztech Intelligent	kidztech.cn	28 April 2015	28 April 2020
Kidztech Intelligent	奇士達.cn	28 April 2015	28 April 2020
Kidztech Intelligent	奇士達.net	28 April 2015	28 April 2020
Kidztech Intelligent	奇士達.中國	28 April 2015	28 April 2020
Kidztech Intelligent	kidztech.com.cn	28 April 2015	28 April 2020
Kidztech Intelligent	KIDZTECH.商標*	15 September 2015	28 August 2025
Kidztech Intelligent	kidztech.移動*	28 April 2015	28 April 2020

* As at the Latest Practicable Date, the domain names were not in use.

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 SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND EXPERTS

1. Disclosure of interests

(a) Interests of Directors and chief executive in shares, underlying shares and debentures of our Company and its associated corporations

So far as our Directors are aware, immediately following completion of the Global Offering and the Capitalisation Issue, but taking no account of any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and any of the Adjustment Options (whichever is applicable) or repurchased by our Company pursuant to the mandates as referred to in the paragraph headed "A. Further information about our Company" in this appendix, the interests and short positions of our Directors or chief executive of our Company in the shares, underlying shares and debentures of our Company or any of the associated corporations (within the meaning of Part XV of the SFO) which, once the Shares are listed on the Stock Exchange, 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 any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors of

Listed Issuers contained in the Listing Rules relating to securities transactions by our Directors, to be notified to our Company and the Stock Exchange, will be as follows:

(i) Long position in the Shares

Name of Director	Capacity/Nature	Number of Shares held	Approximate percentage of shareholding
Mr. Yu *Note 1*	Interest in a controlled corporation	206,946,667	39.80%
Mr. Pui *Note 2*	Interest in a controlled corporation	21,580,000	4.15%
Ms. Zheng Jingyun *Note 3*	Interest of spouse	35,966,667	6.92%

Notes:

1. *Top Synergy is owned as to approximately 94.79% by Mr. Yu and as to approximately 5.21% by Ms. Chen, respectively. Therefore, Mr. Yu is deemed to be interested in all the Shares held by Top Synergy for the purpose of the SFO.*

2. *Keen Pacemaker is wholly owned by Mr. Pui. Therefore, Mr. Pui is deemed to be interested in all the Shares held by Keen Pacemaker for the purpose of the SFO.*

3. *Ms. Zheng Jingyun, our non-executive Director, is the spouse of Mr. Cai. Therefore, Ms. Zheng Jingyun is deemed to be interested in all the Shares that Mr. Cai is interested in for the purpose of the SFO.*

(b) Interests of substantial and other Shareholders in the Shares and underlying Shares

So far as is known to our Directors and taking no account of any Shares which may be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme and any of the Adjustment Options (whichever is applicable), the following persons (not being a Director or chief executive of our Company) will, immediately following completion of the Global Offering and the Capitalisation Issue, have interests or short positions in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 10% or more of the number of the total issued shares carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name	Capacity/Nature	Number of Shares held	Percentage of shareholding
Ms. Chen *Note 1*	Interest of spouse	206,946,667	39.80%
Top Synergy	Beneficial owner	206,946,667	39.80%

Name	Capacity/Nature	Number of Shares held	Percentage of shareholding
Ms. Ng Note 2	Interest in a controlled corporation	55,333,333	10.64%
Mr. Wu Shupeng Note 3	Interest of spouse	55,333,333	10.64%
Motivational Mathematics	Beneficial owner	35,966,667	6.92%
Mr. Cai Note 4	Interest in a controlled corporation	35,966,667	6.92%
Charming Flair	Beneficial owner	35,966,667	6.92%

Notes:

1. *Ms. Chen is the spouse of Mr. Yu. Therefore, Ms. Chen is deemed to be interested in all the Shares that Mr. Yu is interested in for the purpose of the SFO.*

2. *Motivational Mathematics is owned as to 100% by Ms. Ng. Therefore, Ms. Ng is deemed to be interested in all the Shares held by Motivational Mathematics for the purpose of the SFO.*

3. *Mr. Wu Shupeng is the spouse of Ms. Ng. Therefore, Mr. Wu Shupeng is deemed to be interested in all the Shares that Ms. Ng is interested in for the purpose of the SFO.*

4. *Charming Flair is owned as to 100% by Mr. Cai. Therefore, Mr. Cai is deemed to be interested in all the Shares held by Charming Flair for the purpose of the SFO.*

2. Particulars of service contracts

Each of our executive Directors has entered into a service agreement with our Company. The service agreements are initially for a fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months written notice to the other party.

Each of our non-executive Director and independent non-executive Directors has entered into an appointment letter with us. Their appointment shall be of an initial term of three years commencing from the Listing Date subject to termination in certain circumstances as stipulated in the appointment letter.

Our Directors are required to abstain from voting and is not counted in the quorum in respect of any resolution of our Directors regarding the amount of the monthly salary and the discretionary bonus payable to him/her.

Save as disclosed above, none of our Directors has or is proposed to have any service agreement with our Company or any of our subsidiaries (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

3. Remuneration of Directors

(a) The aggregate remuneration paid by our Group to our Directors in respect of the three years ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2019 were approximately RMB1.3 million, RMB1.5 million, RMB1.4 million and RMB0.9 million, respectively.

(b) Under the arrangements currently in force, the aggregate emoluments (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to our Directors for the year ended 31 December 2019 and for the year ending 2020 will be approximately RMB1.4 million and RMB1.7 million, respectively.

4. Agency fees or commissions received

Save as disclosed in the paragraph headed "Commission and expenses" under the section headed "Underwriting" in this prospectus, none of our Directors or the experts named in the paragraph headed "Qualifications of experts" in this appendix had received any agency fee or commissions from our Group within the two years preceding the date of this prospectus.

5. Related party transactions

Details of the material related party transactions are set out under Note 31 to the Accountant's Report set out in Appendix I to this prospectus.

6. Disclaimers

Save as disclosed in this prospectus:

i. taking no account of any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme or the Adjustment Options, or repurchased by our Company pursuant to the mandates as referred to in the paragraph headed "A. Further information about our Company" in this appendix, our Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Global Offering and the Capitalisation Issue, have an interest or short position in the Shares or underlying Shares which will fall to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 10% or more of the number of total issued shares carrying rights to vote in all circumstances at general meetings of any member of our Group;

ii. none of our Directors or chief executive of our Company has any interest or short position in the Shares, underlying Shares or debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors of Listing Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange, in each case once the Shares are listed;

iii. none of our Directors or the experts named in the sub-paragraph headed "7. Qualifications of experts" under the paragraph headed "D. Other information" in this appendix is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

iv. none of our Directors or the experts named in the sub-paragraph headed "7. Qualifications of experts" under the paragraph headed "D. Other information" in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;

v. none of our Directors or the experts named in the sub-paragraph headed "7. Qualifications of experts" under the paragraph headed "D. Other information" in this appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;

vi. so far as is known to our Directors, none of our Directors, their respective close associates (as defined under the Listing Rules) or Shareholders who are interested in more than 5% of the issued Shares has any interests in the five largest customers or the five largest suppliers of our Group;

vii. none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)); and

viii. no remuneration or other benefits in kind have been paid by any member of our Group to any Director since the date of incorporation of our Company, nor are any remuneration or benefits in kind payable by any member of our Group to any Director in respect of the current financial year under any arrangement in force as at the Latest Practicable Date.

D. OTHER INFORMATION

1. Share Option Scheme

(a) Purposes of the scheme

The principal terms of the Share Option Scheme conditionally adopted by a resolution in writing passed by the then Shareholders on 13 February 2020:

(i) Purposes of the scheme

The purpose of the Share Option Scheme is to enable our Group to grant options to selected participants as incentives or rewards for their contribution to us. Our Directors consider the Share Option Scheme, with its broadened basis of participation, will enable our Group to reward the employees, our Directors and other selected participants for their contributions to us. Given that our Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by our Directors, it is expected that grantees of an option will make an effort to contribute to the development of our Group so as to bring about an increased market price of the Shares in order to capitalise on the benefits of the options granted.

(ii) Who may join

Our Directors may, at its absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

(aa) any employee (whether full-time or part-time including any executive director but excluding any non-executive director) of our Company, any of our subsidiaries or any entity (the "**Invested Entity**") in which any member of our Group holds an equity interest ("**Eligible Employee**");

(bb) any non-executive directors (including independent non-executive directors) of our Company, any of our subsidiaries or any Invested Entity;

(cc) any supplier of goods or services to any member of our Group or any Invested Entity;

(dd) any customer of any member of our Group or any Invested Entity;

(ee) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;

(ff) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;

(gg) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity;

(hh) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group;

and, for the purposes of the Share Option Scheme, the offer for the grant of option may be made to any company wholly owned by one or more persons belonging to any of the above classes of participants.

For avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of our Group to any person who falls within any of the above classes of participants shall not, by itself, unless our Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the above class of participants to an offer for the grant of any option shall be determined by our Directors from time to time on the basis of our Directors' opinion as to his contribution to the development and growth of our Group.

(iii) Maximum number of the Shares

(aa) The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by our Company must not in aggregate exceed 30% of the share capital of our Company in issue from time to time.

(bb) The total number of the Shares which may be allotted and issued upon the exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Company) to be granted under the Share Option Scheme and any other share option scheme of our Company must not in aggregate exceed 10% of the number of Shares in issue on the Listing Date, being 52,000,000 Shares (the "**General Scheme Limit**").

(cc) Subject to (aa) above but without prejudice to (dd) below, our Company may seek approval of the Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of our

Company must not exceed 10% of the number of Shares in issue as at the date of approval of the limit and, for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of our Company) previously granted under the Share Option Scheme and any other share option scheme of our Company will not be counted. The circular sent by our Company to the Shareholders shall contain, among other information, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(dd) Subject to (aa) above and without prejudice to (cc) above, our Company may seek separate Shareholders' approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the extended limit referred to in (cc) above to participants specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to the Shareholders containing a generic description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2) (d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(iv) Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon the exercise of the options granted under the Share Option Scheme and any other share option scheme of our Company (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the number of Shares in issue for the time being (the "**Individual Limit**"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant must be separately approved by the Shareholders in general meeting of our Company with such grantee and his close associates (or his associates if the grantee is a connected person) abstaining from voting. The number and terms (including the exercise price) of options to be granted must be fixed before the approval of the Shareholders and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

(v) Grant of options to our Directors, chief executive or substantial shareholders of our Company or their respective associates

(aa) Any grant of options under the Share Option Scheme to a Director, chief executive or substantial shareholder of our Company or any of their respective associates must be approved by independent non-executive Directors (excluding any independent non-executive Director who or whose associates is the proposed grantee of the options).

(bb) Where any grant of options to a substantial shareholder or an independent non-executive Director or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12- month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% of the Shares in issue; and

(ii) having an aggregate value, based on the closing price of the Shares at the date of each offer for the grant, in excess of HK$5 million;

such further grant of options must be approved by Shareholders in general meeting. Our Company must send a circular to the Shareholders containing the information required under the Listing Rules, within such time as may be specified in the Listing Rules. All connected persons of our Company must abstain from voting in favour at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options shall be taken on a poll. Any change in the terms of options granted to a substantial shareholder or an independent non-executive Director or any of their respective associates must be approved by the Shareholders in general meeting (with such grantee, his associates and all core connected persons of our Company abstaining from voting in favour).

(vi) Time of acceptance and exercise of option

An option may be accepted by a participant within 21 days from the date of the offer of grant of the 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 Directors to each grantee, which period may commence from the date of the offer for the grant of options is made, but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by our Directors and stated in the offer for the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

(vii) Performance targets

Unless our Directors otherwise determined and stated in the offer for the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

(viii) Subscription price for the Shares and consideration for the option

The subscription price for the Shares under the Share Option Scheme shall be a price determined at the discretion of our Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a Share.

A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

(ix) Ranking of Shares

The Shares allotted and issued upon the exercise of an option will be subject to all the provisions of the Articles of Association for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the reopening of the register of members (the "**Exercise Date**") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date 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 Exercise Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee has been entered on the register of members of our Company as the holder thereof.

Unless the context otherwise requires, references to "Shares" in this paragraph include references to shares forming part of the ordinary equity share capital of our Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or re-construction of the share capital of our Company from time to time.

(x) Restrictions on the time of the offer for the grant of options

No offer for grant of options shall be made after inside information has come to our Company's knowledge until we have announced the information. In particular, during the period commencing one month immediately preceding the earlier of (aa) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and (bb) the deadline for our Company to publish an announcement of our results for any year, half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of the results announcement, no offer for the grant of options may be made.

Our Directors may not make any offer for the grant of option to a participant who is a Director during the periods or times in which Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

(xi) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period which may not expire later than of 10 years commencing on the date on which the Share Option Scheme is adopted.

(xii) Rights on ceasing employment

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or the termination of his employment on one or more of the grounds referred to in sub-paragraph (xiv) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation or termination and shall not be exercisable unless our Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as our Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was at work with our Group or the Invested Entity whether salary is paid in lieu of notice or not.

(xiii) Rights on death, ill-health or retirement

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation of employment which date shall be the last day on which the grantee was at work with our Group or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as our Directors may determine.

(xiv) Rights on dismissal

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of a termination of his employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the grantee or our Group or the Invested Entity into disrepute), his option (to the extent not already exercised) will lapse automatically on the date of cessation to be an Eligible Employee.

(xv) Rights on breach of contract

If our Directors shall at their absolute discretion determine that (aa) (1) the grantee of any option (other than an Eligible Employee) or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and our Group or any Invested Entity on the other part; or (2) that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) the grantee could no longer make any contribution to the growth and development of our Group by reason of the cessation of its relations with us or by other reason whatsoever; and (bb) the option granted to the grantee under the Share Option Scheme shall lapse as a result of any event specified in (1), (2) or (3) of this paragraph, his option will lapse automatically on the date on which our Directors have so determined.

(xvi) Rights on a general offer, a compromise or arrangement

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, Shareholders. If such offer becomes or is declared unconditional or such scheme of arrangement is formally proposed to shareholders in our Company, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date which such offer (or, as the case may be, revised offer) closed or the relevant date for entitlements under such scheme of arrangement, as the case may be.

(xvii) Rights on winding up

In the event of a resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two business days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and our Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one business day before the date on which such resolutions to be considered and/or passed whereupon he shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation *pari passu* with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of our Company.

(xviii) Grantee being a company wholly owned by eligible participants

If the grantee is a company wholly owned by one or more eligible participants:

(aa) sub-paragraphs (xii), (xiii), (xiv) and (xv) shall apply to the grantee and to the options to such grantee, mutatis mutandis, as if such options had been granted to the relevant eligible participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in sub-paragraphs (xii), (xiii), (xiv) and (xv) shall occur with respect to the relevant eligible participant; and

(bb) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant eligible participant provided that our Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

(xix) Adjustment to the subscription price

In the event of a capitalisation issue, rights issue, subdivision or consolidation of Shares or reduction of capital of our Company while an option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being of or an independent financial adviser to our Company as fair and reasonable will be made to the number of Shares to which the Share Option Scheme or any option relates (insofar as it is/they are unexercised) and/or the subscription price of the option concerned and/or (unless the grantee of the option elects to waive such adjustment) the number of Shares comprised in an option or which remains comprised in an option, provided that (aa) any adjustments shall give a grantee the same proportion of the number of issued shares as that to which he was entitled prior to such alteration; (bb) no alteration may be made to the extent that a Share would be issued at less than its nominal value; (cc) the issue of Shares or other securities of our Company as consideration in a transaction may not be regarded as a circumstance requiring adjustment; and (dd) any adjustment must be made in compliance with the Listing Rules and such rules, codes and guidance notes of the Stock Exchange from time to time. In addition, in respect of any such adjustments, other than any adjustment made on a capitalisation issue, such auditors or independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules.

(xx) Cancellation of options

Any cancellation of options granted but not exercised must be subject to the prior written consent of the relevant grantee and the approval of our Directors.

When our Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding the options so cancelled) within the General Scheme Limit or the new limits approved by the Shareholders pursuant sub-paragraphs (iii) (cc) and (dd) above.

(xxi) Termination of the Share Option Scheme

Our Company may by resolution in general meeting at any time terminate the Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(xxii) Rights are personal to the grantee

An option shall be personal to the grantee and shall not be transferable or assignable.

(xxiii) Lapse of option

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

(aa) the expiry of the option period in respect of such option;

(bb) the expiry of the periods or dates referred to in paragraph (xii), (xiii), (xiv), (xv), (xvi), (xvii) and (xviii); and

(cc) the date on which our Directors exercise our Company's right to cancel the option by reason of a breach of paragraph (xxii) above by the grantee.

(xxiv) Miscellaneous

(aa) The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, such number of Shares to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.

(bb) The terms and conditions of the Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees or prospective grantees of the options except with the approval of the Shareholders in general meeting.

(cc) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

(dd) The amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of the Listing Rules.

(ee) Any change to the authority of our Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme must be approved by the shareholders of our Company in general meeting.

(b) Present status of the Share Option Scheme

(i) Approval of the Listing Committee required

The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.

(ii) Application for approval

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(iii) Grant of option

As at the date of this prospectus, no options have been granted or agreed to be granted under the Share Option Scheme.

(iv) Value of options

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

(v) Compliance with the Listing Rules

The Share Option Scheme complies with Chapter 17 of the Listing Rules.

2. Tax, estate duty and other indemnities

Our Controlling Shareholders (collectively, the "**Indemnifiers**") have, under a deed of indemnity referred to in sub-paragraph (b) of the sub-paragraph headed "1. Summary of material contracts" under the paragraph headed "B. Further information about the business of our Group" in this appendix, given joint and several indemnities to our Company for itself and as trustee for our subsidiaries in connection with, among other things, (a) any taxation falling on any member of our Group (i) in respect of or by reference to any income, profits or gains earned, accrued or received or deemed or alleged to have been earned, accrued or received on or before the date on which the Global Offering becomes unconditional; or (ii) in respect of or by reference to any transaction, act, omission or event entered into or occurring or deemed to enter into or occur on or before the date on which the Global Offering becomes unconditional; and (b) any claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses, administrative penalties and fines of whatever nature suffered or incurred by any member of our Group as a result of or in connection with any litigation, arbitrations, claims (including counter-claims), complaints, demands, non-compliances with laws and regulations and/or legal proceedings instituted by or against any member of our Group in relation to events occurred on or before the date on which the Global Offering becomes unconditional.

The Indemnifiers will, however, not be liable under the Deed of Indemnity to the extent that, among others:

(a) specific provision, reserve or allowance has been made for such liability in the audited combined accounts of our Company for the Track Record Period; or

(b) the taxation liability arises or is incurred as a result of a retrospective change in law or a retrospective increase in tax rates coming into force after the date on which the Global Offering becomes unconditional; or

(c) the taxation liability arises in the ordinary course of business of any members of our Group after 31 August 2019 up to and including the date on which the Global Offering becomes unconditional.

Our Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands is likely to fall on our Group.

3. Litigation

Our Directors confirmed that as at the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration or claim of material importance and no litigation, arbitration or claim of material importance is pending or threatened by or against any member of our Group, that would have a material adverse effect on our results of operations or the financial condition of our Company or any other member of our Group.

4. Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Division for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and any Shares which may fall to be issued pursuant to the exercise of any options which may be granted under the Adjustment Options. The Sole Sponsor's fee in relation to Listing is HK$7 million.

5. Preliminary expenses

The preliminary expenses relating to the incorporation of our Company are approximately HK$51,000 and are payable by our Company.

6. Promoter

Our Company has no promoter for the purpose of the Listing Rules.

7. Qualifications of experts

The following are the respective qualifications of the experts who have given their opinion or advice which is contained in this prospectus:

Name	Qualification
CMBC International Capital Limited	A corporation licensed under the SFO to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined in the SFO
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
King & Wood Mallesons	Qualified PRC lawyers
PricewaterhouseCoopers	Certified Public Accountants
China Insights Industry Consultancy Limited	Industry consultant

8. Consents of experts

Each of the above-named experts has given and has not withdrawn its written consents to the issue in this prospectus, with the inclusion of its letters and/or reports and/or opinions and/or summary thereof (as the case may be) and/or reference to its name included herein in the form and context in which they respectively appear.

9. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

10. Registration procedures

The principal share registrar of our Company in the Cayman Islands will be maintained by Conyers Trust Company (Cayman) Limited and a Hong Kong branch share registrar and transfer office of our Company will be maintained by Tricor Investor Services Limited. Save where our Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, our Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

11. No material adverse change

Except to the extent disclosed in the paragraph headed "Recent development" in the section headed "Summary" of this prospectus and the listing expenses in connection with the Global Offering, our Directors confirm that there has been no material adverse change in our financial, operational or trading position or prospects since 31 August 2019 (being the date to which the latest audited financial statements of our Group were prepared as set out in Appendix I to this prospectus) and up to the date of this prospectus.

12. Taxation of holders of Shares

(a) Hong Kong

The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which charged on each of the purchaser and the seller is 0.1% of the consideration or, if higher, the value of our Shares being sold or transferred.

Profits from dealings in Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) Cayman Islands

No stamp duty is payable in the Cayman Islands on transfer of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(c) Consultation with professional advisers

Intending holders of the Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. It is emphasised that none of our Company, our Directors or parties involved in the Global Offering accepts responsibility for any tax effect on, or liabilities of holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

13. Miscellaneous

(a) Save as disclosed in this prospectus:

(i) Within the two years immediately preceding the date of this prospectus:

(aa) no share or loan capital of our Company or any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;

(bb) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries and no commission has been paid or is payable in connection with the issue or sale of any capital of our Company or any of our subsidiaries;

(cc) no commission has been paid or payable (except to sub-underwriter) for subscribing or agreeing to subscribe, procuring or agreeing to procure subscriptions, for any Shares or shares of any of our subsidiaries;

(dd) no founder, management or deferred shares or any debentures of our Company have been issued or agreed to be issued; and

(ee) no share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option;

(ii) there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 24 months immediately preceding the date of this prospectus;

(iii) none of the parties named in the sub-paragraph headed "7. Qualifications of experts" under the paragraph headed "D. Other information" in this appendix:

(aa) is interested beneficially or non-beneficially in any securities in any member of our Group, including the Shares; or

(bb) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of our Group, including the Shares;

(iv) our Company and our subsidiaries did not have any debt securities issued or outstanding, or authorised or otherwise created but unissued, or any term loans whether guaranteed or secured as at the Latest Practicable Date;

(v) our Directors have been advised that, under the laws of the Cayman Islands, the use of a Chinese name registered as a dual foreign name in the Cayman Islands by our Company in conjunction with the English name does not contravene the laws of the Cayman Islands;

(vi) no company within our Group is presently listed on any stock exchange or traded on any trading system;

(vii) our Group has no outstanding convertible debt securities;

(viii) the English text in this prospectus shall prevail over the Chinese text; and

(ix) there are no arrangements under which future dividends are waived or agreed to be waived.

14. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided in section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

(1) copies of the **WHITE**, **YELLOW**, **GREEN** Application Forms;

(2) the written consents referred to in the sub-paragraph headed "8. Consents of experts" under the paragraph headed "D. Other information" in Appendix IV to this prospectus; and

(3) copies of each of the material contracts referred to in the sub-paragraph headed "1. Summary of material contracts" under the paragraph headed "B. Further information about the business of our Group" in Appendix IV to this prospectus.

B. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of CFN Lawyers at 27th Floor, Neich Tower, 128 Gloucester Road, Wan Chai, Hong Kong, during normal business hours up to and including the date which is 14 days from the date in this prospectus:

(1) the Memorandum and the Articles;

(2) the materials contracts referred to in the sub-paragraph headed "1. Summary of material contracts" under the paragraph headed "B. Further information about the business of our Group" in Appendix IV to this prospectus;

(3) the service contracts and letters of appointment referred to under the sub-paragraph headed "2. Particulars of service contracts" under the paragraph headed "C. Further information about Substantial Shareholders, Directors and experts" in Appendix IV to this prospectus;

(4) the written consents referred to under the sub-paragraph headed "8. Consents of experts" under the paragraph headed "D. Other information" in Appendix IV to this prospectus;

(5) the Accountant's Report of our Company prepared by PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus;

(6) the letter on unaudited pro forma financial information issued by PricewaterhouseCoopers, the text of which is set out in Appendix IIA to this prospectus;

(7) the audited combined financial statements of the companies comprising our Group for the years ended 31 December 2016, 2017, 2018 and the eight months ended 31 August 2019;

(8) the letter relating to profit estimate issued by PricewaterhouseCoopers and the Sole Sponsor respectively, the texts of which are set out in Appendix IIB to this prospectus;

(9) the letter of advice prepared by Conyers Dill & Pearman summarising certain aspects of the company law of the Cayman Islands referred to in Appendix III to this prospectus;

(10) the legal opinions prepared by our PRC Legal Advisers in respect of certain aspects of our Group and the property interests of our Group in the PRC;

(11) the Companies Law;

(12) the CIC Report; and

(13) the rules of the Share Option Scheme.

KIDZTECH
HOLDINGS LIMITED
奇 士 達 控 股 有 限 公 司