Hamleys Asia Limited

Financial Statements

for the year ended 31st December, 2019

Independent Auditor's Report

To the members of Hamleys Asia Limited (Incorporated in Hong Kong with limited liability)

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Hamleys Asia Limited ("the company") set out on pages 6 to 30, which comprise the statement of financial position as at 31 December 2019, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the company as at 31 December 2019 and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and auditor's report thereon

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

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

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

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

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent Auditor's Report (continued)

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

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

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

Auditor's responsibilities for the audit of the financial statements (continued)

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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

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

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

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

April 24, 2020

Statement of profit or loss and other comprehensive income for the year ended 31 December 2019 *(Expressed in Hong Kong dollars)*

	Note	*2019*	*2018 (Note)*
Revenue	*2*	$ 5,093,047	$ 4,922,809
Other gain/(loss)	*3*	110,484	(22,133)
Administrative and operating expenses		(5,890,718)	(5,665,160)
Loss from operations		$ (687,187)	$ (764,484)
Finance costs	*4*	(14,835)	-
Loss before taxation	*5*	$ (702,022)	$ (764,484)
Income tax	*6(a)*	-	100,211
Loss and total comprehensive income for the year		$ (702,022)	$ (664,273)

Note: The company has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

The notes on pages 8 to 19 form part of these financial statements.

Statement of financial position at 31 December 2019
(Expressed in Hong Kong dollars)

	Note	*2019*	*2018 (Note)*
Non-current asset			
Property, plant and equipment	*8*	$ 1,526,625	$ 448,322
Other receivables	*9*	201,090	-
		$ 1,727,715	$ 448,322
Current assets			
Other receivables	*9*	$ 129,272	$ 296,222
Amounts due from fellow subsidiaries	*10*	334,624	485,636
Current tax recoverable	*14*	120,796	
Cash and cash equivalents	*11*	3,578	113,307
		$ 467,474	$ 1,015,961
Current liabilities			
Trade and other payables	*12*	$ 483,666	$ 767,330
Lease liabilities	*13*	507,772	-
Amount due to a fellow subsidiary	*10*	261,970	-
		$ 1,253,408	$ 767,330
Net current (liabilities)/assets		$ (785,934)	$ 248,631
Total assets less current liability		$ 941,781	$ 696,953
Non-current liability			
Lease liabilities	*13*	$ 946,850	$ -
		$ (946,850)	$ -
NET (LIABILITIES)/ASSETS		$ (5,069)	$ 696,953
CAPITAL AND RESERVE	*15*		
Share capital		$ 1	$ 1
(Accumulated loss)/retained profits		(5,070)	696,952
TOTAL (DEFICIT)/EQUITY		$ (5,069)	$ 696,953

Approved and authorised for issue by the directors on April 24, 2020

Shaikh Sohail Ahmed
Ashish Mahadeo Patil } Directors

Note: The company has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

The notes on pages 8 to 19 form part of these financial statements.

Statement of changes in equity for the year ended 31 December 2019

(Expressed in Hong Kong dollars)

	Share Capital	Retained profits / (accumulated loss) (Note)	Total
Balance at 1 January 2018	$ 1	$ 1,361,225	$ 1,361,226
Change in equity for the year ended 31 December 2018:			
Loss and total comprehensive income for the year	-	(664,273)	(664,273)
Balance at 31 December 2018 and 1 January 2019	$ 1	$ 696,952	$ 696,953
Change in equity for the year ended 31 December 2019:			
Loss and total comprehensive income for the year	-	(702,022)	(702,022)
Balance at 31 December 2019	$ 1	$ (5,070)	$ (5,069)

Note: *The company has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).*

The notes on pages 8 to 19 form part of these financial statements.

Cash flow statement for the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Note	*2019*	*2018 (Note)*
Operating activities			
Cash used in operations	*11(b)*	$ (91,775)	$ (175,857)
Hong Kong Profits Tax refunded		120,796	-
Net cash generated from/(used in) operating activities		$ 29,021	$ (175,857)
Financing activities			
Capital element on lease rental paid	*11(c)*	$ (123,915)	$ -
Interest paid	*11(c)*	(14,835)	-
Net cash used in financing activities		$ (138,750)	$ -
Decrease in cash and cash equivalents		$ (109,729)	$ (175,857)
Cash and cash equivalents at 1 January		113,307	289,164
Cash and cash equivalents at 31 December		$ 3,578	$ 113,307

Note: The company has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

The notes on pages 8 to 19 form part of these financial statements.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise stated)

1 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. Significant accounting policies adopted by the company are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the company for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The financial statements have been prepared on a going concern basis, notwithstanding the net current liabilities and net liabilities of $785,934 and $5,069 respectively of the company as at 31 December 2019 as the company's immediate holding company has given an undertaking to provide sufficient financial assistance to maintain the company as a going concern and to enable it to meet its liabilities as and when they fall due. Accordingly, the directors of the company consider it appropriate to prepare the financial statements on a going concern basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the company.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the company's results and financial position for the current or prior periods have been prepared or presented. The company has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives, and HK(SIC) 27, Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The company has initially applied HKFRS 16 as from 1 January 2019. The company has elected to use the modified retrospective approach. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

Notes to the financial statements

a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The company applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the company has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b. Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the company is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the company is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 8(a). For an explanation of how the company applies lessee accounting, see note 1(e).

To ease the transition to HKFRS 16, the company applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the company elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019.

The adoption of HKFRS 16 has no impact on the company as the lease term of lease commitments as disclosed in note 17 as at 31 December 2018 ended on or before 31 December 2019.

c. Impact on the financial result and cash flows of the company

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the company as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the company's statement of profit or loss and other comprehensive income, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the company as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see note 11(c)). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

– Leasehold improvements	Over the shorter of term of leases and 3 years
– Office equipment	5 years
– Furniture and fixtures	3 years
– Properties leased for own use	Over the shorter of term of leases and 3 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

The carrying amounts of property, plant and equipment are reviewed for indications of impairment at the end of each reporting period. An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to

Notes to the financial statements

which it belongs, exceeds its recoverable amount. The recoverable amount of an asset, or of the cash-generating unit to which it belongs, is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(e) Leased assets

At inception of a contract, the company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

As a lessee

(A) Policy applicable from 1 January 2019

At the lease commencement date, the company recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the company, are primarily laptops and office furniture. When the company enters into a lease in respect of a low-value asset, the company decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the company's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the company will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

In the statement of financial position, the company presents right-of-use assets in 'property, plant and equipment' and presents lease liabilities separately.

(B) Policy applicable prior to 1 January 2019

An arrangement, comprising a transaction or a series of transactions, was or contains a lease if the company determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination was made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Leases which did not transfer substantially all the risks and rewards of ownership to the company are classified as operating leases.

Notes to the financial statements

Where the company had the use of other assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

(f) Other receivables (including amounts due from fellow subsidiaries)

A receivable is recognised when the company has an unconditional right to receive consideration. A right to receive consideration in unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the company has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses as determined below:

The loss allowance is measured at an amount equal to lifetime expected credit losses ("ECLs"), which are those losses that are expected to occur over the expected life of the trade receivables. The loss allowance is estimated using a provision matrix based on the company's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

ECLs are remeasured at each reporting date with any changes recognised as an impairment gain or loss in profit or loss. The company recognises an impairment gain or loss with a corresponding adjustment to the carrying amount of trade and other receivables through a loss allowance account.

The gross carrying amount of a trade debtor or other receivable is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

(g) Trade and other payables (including amount due to a fellow subsidiary)

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(i) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees.

(j) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from differences which arise on initial recognition of assets and liabilities, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

Notes to the financial statements

(k) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(l) Revenue recognition and other revenue

Income is classified by the company as revenue when it arises from the provision of services in the ordinary course of the company's business.

Revenue is recognised when control over a service is transferred to the customer at the amount of promised consideration to which the company to be entitled. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(i) Commission income

Commission income arising from the provision of sourcing services is recognised when the relevant services are rendered.

(m) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies and non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

(n) Related parties

(a) A person, or a close member of that person's family, is related to the company if that person:

- (i) has control or joint control over the company;
- (ii) has significant influence over the company; or
- (iii) is a member of the key management personnel of the company or the company's parent.

(b) An entity is related to the company if any of the following conditions applies:

- (i) The entity and the company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the company or an entity related to the company.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the company or to the company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

Notes to the financial statements

2 Revenue

The principal activity of the company is provision of sourcing services to its group companies. Revenue represents commission fee earned from sourcing services within the scope of HKFRS 15.

3 Other gain/(loss)

	2019	*2018*
Exchange gain/(loss), net	$ 110,484	$ (22,133)

4 Finance costs

	2019 *(Note)*	*2018*
Interest on lease liabilities	$ 14,835	$ -

Note: The company has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

5 Loss before taxation

Loss before taxation is arrived at after charging:

	2019	*2018*
(a) Staff costs		
Contributions to defined contribution retirement plan	$ 102,303	$ 123,360
Salary, wages and other benefits	3,689,956	3,318,348
	$ 3,792,259	$ 3,441,708
(b) Other items		
Depreciation		
– owned property, plant and equipment*	$ 368,689	$ 450,994
– right-of-use assets*	131,545	-
Total minimum lease payments for leases previously classified under HKAS 17	-	659,723
Expense relating to short-term lease with remaining lease term ended on or before 31 December 2019	546,107	-
Auditors' remuneration	147,000	128,000

* The company has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the company as a leasee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 1(c).

6 Income tax in the statement of profit or loss and other comprehensive income

(a) Taxation credited to profit or loss:

	2019	*2018*
Current tax - Hong Kong Profits Tax		
Provision for the year	$ -	$ -
Over-provision in respect of prior years	-	(100,211)
	$ -	$ (100,211)

No provision for Hong Kong Profits Tax has been made in the financial statements as the company did not earn any income subject to Hong Kong Profits Tax during the current year.

The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year.

Notes to the financial statements

(b) Reconciliation between tax expense/(credit) and accounting loss at applicable tax rate:

	2019	*2018*
Loss before taxation	$ (702,022)	$ (764,484)
Notional tax on loss before taxation	$ (115,834)	$ (126,140)
Tax effect of temporary difference not recognised	115,834	126,140
Over-provision in respect of prior years	-	(100,211)
Actual tax expense credited to profit or loss	$ -	$ (100,211)

In accordance with the accounting policy set out in note 1(j), the company did not recognise deferred tax assets in respect of cumulative tax losses of $1,570,499 (2018: $1,319,284) as the directors considered it was not probable that future taxable profits against which the losses can be utilised will be available under Hong Kong Profits Tax.

7 Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2019	*2018*
Directors' fees	$ -	$ -
Salaries, allowances and benefits in kind	124,506	58,184
Discretionary bonuses	-	-
Retirement scheme contributions	-	-

8 Property, plant and equipment

	Leasehold improvements	*Furniture and fixtures*	*Office equipment*	*Properties leased for own use*	*Total*
Cost:					
At 1 January 2019	$ 1,125,498	$ 102,000	$ 209,137	$ -	$ 1,436,635
Additions	-	-	-	1,578,537	1,578,537
At 31 December 2019	$ 1,125,498	$ 102,000	$ 209,137	$ 1,578,537	$ 3,015,172
Accumulated depreciation:					
At 1 January 2019	$ 829,162	$ 71,474	$ 87,677	$ -	$ 988,313
Charge for the year	296,336	30,526	41,827	131,545	500,234
At 31 December 2019	$ 1,125,498	$ 102,000	$ 129,504	$ 131,545	$ 1,488,547
Net book value:					
At 31 December 2019	$ -	$ -	$ 79,633	$ 1,446,992	$ 1,526,625

	Leasehold improvements	*Furniture and fixtures*	*Office equipment*	*Total*
Cost:				
At 1 January and 31 December 2018	$ 1,125,498	$ 102,000	$ 209,137	$ 1,436,635
Accumulated depreciation:				
At 1 January 2018	$ 453,996	$ 37,474	$ 45,849	$ 537,319
Charge for the year	375,166	34,000	41,828	450,994
At 31 December 2018	$ 829,162	$ 71,474	$ 87,677	$ 988,313
Net book value:				
At 31 December 2018	$ 296,336	$ 30,526	$ 121,460	$ 448,322

Note: The company has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. See note 1(c).

Notes to the financial statements

(a) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	31 December 2019	*1 January 2019*
Properties leased for own use, carried at depreciated cost	$ 1,446,992	$ -

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019	*2018 (Note)*
Depreciation charge of right-of-use assets by class of underlying asset:		
Properties leased for own use	$ 131,545	$ -
Interest on lease liabilities (note 4)	$ 14,835	$ -
Expense relating to short-term leases and other leases with remaining lease term ended on or before 31 December 2019 not included in the measurement of lease liabilities	546,107	-
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	-	659,723

Note: The company has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. See note 1(c).

During the year, additions to right-of-use assets were $1,578,538, which related to the capitalised lease payments payable under new tenancy agreements.

The company has obtained the right to use certain properties as its office premises through tenancy agreements. The leases typically run for an initial period of 3 years. The leases usually do not include an option to renew the lease for an additional period after the end of the contract term.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 11(c) and 13 respectively.

9 Other receivables

Except for $201,090, all other receivables were expected to be recovered or recognised as expense within one year as at 31 December 2019.

10 Amounts due from/(to) fellow subsidiaries

The amounts due from fellow subsidiaries are unsecured, interest-free and recoverable on demand.

The amount due to a fellow subsidiary is unsecured, interest-free and has no fixed term of repayment.

11 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

	2019	*2018*
Cash at bank	$ 3,578	$ 113,307

Notes to the financial statements

(b) ***Reconciliation of loss before taxation to cash used in operations:***

	Note	*2019*	*2018*
Loss before taxation		$ (702,022)	$ (764,484)
Adjustment for:			
Depreciation	*5*	500,234	450,994
Finance cost	*4*	14,835	-
Operating loss before changes in working capital		$ (186,953)	$ (313,490)
Changes in working capital:			
Increase in other receivables		(34,140)	(10,318)
Decrease in amounts due from fellow subsidiaries		151,012	136,545
Increase in amount due to a fellow subsidiary		261,970	-
(Decrease)/increase in trade and other payables		(283,664)	11,406
Cash used in operations		$ (91,775)	$ (175,857)

(c) ***Reconciliation of liabilities arising from financing activities:***

The table below details changes in the company's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the company's cash flow statement as cash flows from financing activities.

	Lease liabilities 2019
At 1 January	-
Changes from financing cash flow:	
Capital element of lease rentals paid	(123,915)
Interest element of lease rentals paid	(14,835)
Total changes from financing cash flows	(138,750)
Other changes:	
Interest expenses (note 4)	14,835
Increase in lease liabilities from entering into new leases during the year	1,578,537
Total other changes	1,593,372
At 31 December	1,454,622

12 Trade and other payables

All the trade and other payables are expected to be settled within one year.

13 Lease liabilities

The following table shows the remaining contractual maturities of the company's lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16:

	31 December 2019	
	Present value of the lease payments	*Total lease payments*
	$	$
Within 1 year	507,772	555,000
After 1 year but within 2 years	530,131	557,400
After 2 years but within 5 years	416,719	423,450
	946,850	980,850
	1,454,622	1,535,850
Less: total future interest expenses		(81,228)
Present value of lease liabilities		1,454,622

Note: The company has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. Further details on the impact of the transition to HKFRS 16 are set out in note 1(c).

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14 Income tax in the statement of financial position

Current taxation in the statement of financial position represents:

	2019	2018
Balance of Profits Tax provision relating to prior years	-	(120,796)
	$ -	$ (120,796)

15 Capital, reserve and dividend

(a) Components of the company's capital and reserve

The opening and closing balances of each component of the company's equity and a reconciliation between these amounts are set out in the statement of changes in equity.

(b) Issued share capital

	2019		2018	
	No. of share	*Amount*	*No. of share*	*Amount*
Ordinary share, issued and fully paid:				
At 1 January and 31 December	1	$ 1	1	$ 1

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary share of the company does not have a par value.

The holder of ordinary share is entitled to receive dividends as declared from time to time and is entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

(c) Capital management

The company's primary objectives when managing capital are to safeguard the company's ability to continue as a going concern. As the company is part of a larger group, the company's sources of additional capital and policies for distribution of excess capital may also be affected by the group's capital management objectives.

The company defines "capital" as including all components of equity. On this basis the amount of capital employed at 31 December 2019 was deficit of $5,069 (2018: equity of $696,953).

The company's capital structure is regularly reviewed and managed with due regard to the capital management practices of the group to which the company belongs. Adjustments are made to the capital structure in light of changes in economic conditions affecting the company or the group, to the extent that these do not conflict with the directors' fiduciary duty towards the company or the requirements of the Hong Kong Companies Ordinance. The results of the directors' review of the company's capital structure are used as a basis for the determination of the level of dividends, if any, that are declared.

The company was not subject to externally imposed capital requirements in either the current or prior year.

16 Financial risk management and fair values

The company does not have significant exposure to interest rate and currency risks. The company's exposure to credit risk and liquidity risk arises in the normal course of the company's business and the financial management policies and practices used by the company to manage these risks are described below.

(a) Credit risk

The company's credit risk is primarily attributable to amounts due from fellow subsidiaries. The management has a credit policy in place and the exposure to the credit risk are monitored on an ongoing basis. Credit risk in respect of amounts due from fellow subsidiaries is limited as the amounts were due from group companies which have sufficient reserves of resources to settle the amount as they fall due.

(b) Liquidity risk

The company's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from other group companies to meet its liquidity requirements in the short

Notes to the financial statements

and longer term. As set out in note 1(b), the immediate holding company has undertaken to provide financial assistance to the company.

The following table shows the remaining contractual maturities at the end of the reporting period of the company's financial liabilities, which are based on contractual undiscounted cash flows:

	As at 31 December 2019				
	Carrying amount	*Total contractual undiscounted cash outflow*	*Within 1 year or on demand*	*More than 1 year but within 2 years*	*More than 2 year but within 5 years*
Trade and other payables	$ 483,666	$ 483,666	$ 483,666	$ -	$ -
Amount due to a fellow subsidiary	261,970	261,970	261,970	-	-
Lease liabilities (note)	1,454,622	1,535,850	555,000	557,400	423,450
	$ 2,200,258	$ 2,281,486	$ 1,300,636	$ 557,400	$ 423,450

	As at 31 December 2018		
	Within 1 year or on demand	*Total contractual undiscounted cash outflow*	*Carrying amount*
Trade and other payables	$ 767,330	$ 767,330	$ 767,330

Note: The company has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Under this approach, the comparative information is not restated. See note 1(c).

(c) Fair value measurement

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2019 and 31 December 2018.

17 Commitments

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018
Within 1 year	$ 383,325
	$ 383,325

The company is the lessee in respect of a number of properties held under leases which were previously classified as operating leases under HKAS 17. The company has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the company adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 1(c)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 1(e), and the details regarding the company's future lease payments are disclosed in note 13.

18 Material related party transactions

During the year ended 31 December 2019, other than disclosed elsewhere in these financial statements, the company entered into the following material related party transactions:

(a) Transactions with key management personnel

All members of the key management personnel are the directors of the company, and their remuneration is disclosed in note 7.

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(b) Transactions with other related parties

	Year ended 31 December 2019	*Year ended 31 December 2018*
Commission income received from fellow subsidiaries (note)	$ 5,093,047	$ 4,922,809
Courier cost paid on behalf of fellow subsidiaries	25,522	65,967
Relabelling cost and staff costs charged from a fellow subsidiary	261,970	-

Note: The commission income received from fellow subsidiaries relates to sourcing services provided and is calculated based on a percentage of the value of goods shipped.

19 Immediate and ultimate controlling party

At 31 December 2019, the directors consider the immediate and ultimate holding company of the company to be The Hamleys Group Limited and Reliance Industries Limited, which are incorporated in England and India respectively. Reliance Industries Limited is listed in India and produces financial statements available for public use.

20 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These include the following which may be relevant to the company.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Definition of a business*	1 January 2020
Amendments to HKAS 1 and HKAS 8, *Definition of material*	1 January 2020

The company is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the financial statements.