Kidsland International Holdings Limited
凱知樂國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2122)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

HIGHLIGHTS OF 2017 ANNUAL RESULTS

- The Group has recorded a 14% increase in revenue from approximately HK$1,638.4 million to approximately HK$1,862.2 million compared with prior year.
- Gross profit for the year was approximately HK$866.5 million, representing an increase of approximately HK$48.7 million or 6% from prior year, with gross profit margin decreased from 49.9% to 46.5%.
- EBITDA (Earnings before interest income, finance costs, income tax, depreciation and amortisation) for the year was approximately HK$126.2 million, representing a 10% decrease from prior year. Excluding the non-recurring listing expenses and share-based payment expenses in aggregate of approximately HK$23.6 million, EBITDA for the year increased by 1%.
- Profit for the year was approximately HK$65.4 million, representing a 27% decrease from prior year. Excluding the non-recurring listing expenses and share-based payment expenses in aggregate of approximately HK$23.6 million, profit for the year decreased by 10%.
- A final dividend of HK2.23 cents per ordinary share has been proposed.

RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Kidsland International Holdings Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2017, prepared on the basis set out in Note 2 below, together with the comparative figures for the year ended 31 December 2016, as follows.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	**2017** ***HK$'000***	2016 *HK$'000*
Revenue	*4*	**1,862,176**	1,638,374
Cost of goods sold		**(995,692)**	(820,584)
Gross profit		**866,484**	817,790
Other income	*5*	**25,939**	20,374
Other gains and losses	*6*	**(458)**	1,256
Selling and distribution expenses		**(688,491)**	(648,808)
General and administrative expenses		**(89,814)**	(64,443)
Listing expenses		**(19,908)**	(8,525)
Finance costs		**(255)**	–
Profit before tax		**93,497**	117,644
Income tax expense	*7*	**(28,131)**	(27,658)
Profit for the year	*8*	**65,366**	89,986
Other comprehensive income (expense)			
Item that will not be reclassified to profit or loss			
Exchange differences arising from translation of functional currency to presentation currency		**38,477**	(31,547)
Item that may be reclassified subsequently to profit or loss			
Exchange differences arising from translation of foreign operations		**(4,905)**	1,164
Other comprehensive income (expense) for the year, net of income tax		**33,572**	(30,383)
Total comprehensive income for the year		**98,938**	59,603

	Note	**2017**	2016
		HK$'000	*HK$'000*
Profit for the year attributable to:			
Owners of the Company		**59,352**	89,200
Non-controlling interest		**6,014**	786
		65,366	89,986
Total comprehensive income for the year attributable to:			
Owners of the Company		**92,772**	59,281
Non-controlling interest		**6,166**	322
		98,938	59,603
Basic earnings per share	*10*	**HK9.4 cents**	HK14.9 cents
Diluted earnings per share		**HK9.4 cents**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**59,274**	48,802
Rental deposits		**24,919**	16,159
Deferred tax assets		**9,767**	10,589
		93,960	75,550
Current assets			
Inventories		**617,690**	506,059
Trade receivables	*11*	**191,584**	141,039
Other receivables, deposits and prepayments		**124,070**	71,423
Amount due from a related party		**–**	101
Bank balances and cash		**311,672**	173,365
		1,245,016	891,987
LIABILITIES			
Current liabilities			
Trade payables	*12*	**303,115**	254,759
Other payables and accruals		**101,121**	142,835
Amounts due to related parties		**38**	182,340
Current tax liabilities		**7,237**	16,588
		411,511	596,522
Net current assets		**833,505**	295,465
Total assets less current liabilities		**927,465**	371,015
Non-current liabilities			
Provision for reinstatement costs		**12,070**	8,574
Net assets		**915,395**	362,441
EQUITY			
Owners of the Company			
Share capital		**8,000**	–
Reserves		**894,344**	355,556
		902,344	355,556
Non-controlling interest		**13,051**	6,885
Total equity		**915,395**	362,441

NOTES:

1. CORPORATE INFORMATION

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

The shares of the Company have been listed (the "**Listing**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") with effect from 10 November 2017 (the "**Listing Date**").

The Company's ultimate holding company is Asian Glory Holdings Limited ("**Asian Glory**"), a company incorporated in the British Virgin Islands (the "**BVI**"). Up to 29 May 2017, the Company's immediate holding company was Lovable International Holdings Limited ("**Lovable International Holdings**"), a company incorporated in the BVI. Since the completion of a reorganisation on 29 May 2017 (the "**Reorganisation**"), the Company's immediate holding company is Asian Glory. The Company's ultimate controlling party is Mr. Lee Ching Yiu ("**Mr. Lee**"), who controls the Company mainly through Asian Glory.

2. BASIS OF PREPARATION AND PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all 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 disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollar and all values are rounded to the nearest thousand except when otherwise indicated.

Prior to the Reorganisation, Kidsland Holdings Limited ("**Kidsland Holdings**") and Silverkids Inc. ("**Silverkids**"), the holding companies of the companies now comprising the Group, were controlled by Lovable International Holdings. Kidsland Holdings and Silverkids were owned by Lovable International Holdings as to 100% and 58%, respectively.

In the preparation for the Listing, the companies now comprising the Group underwent the Reorganisation. On 29 May 2017, the Reorganisation was executed to the extent that the Company, had been interspersed between Lovable International Holdings, Kidsland Holdings and Silverkids. The Group, comprising the Company, Kidsland Holdings and Silverkids, resulting from the Reorganisation has always been under the common control of Lovable International Holdings throughout the year, regardless of the actual dates when Kidsland Holdings and Silverkids formally and legally became subsidiaries of the Company. Therefore, the Reorganisation is considered as a business combination under common control and accounted for under merger accounting as mentioned below.

The consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows which include the financial performance and cash flows of the companies now comprising the Group for the year have been prepared as if the Company had always been the holding company of the Group and the current group structure had been in existence throughout the years ended 31 December 2017 and 2016, or since the respective date of establishment/incorporation of the relevant entity where this is a shorter period.

The consolidated statement of financial position at 31 December 2016 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at that date, taking into account the respective date of establishment/incorporation of the relevant entity, where appropriate.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARD

The Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") has issued a number of new and revised HKFRSs which are effective for the Group's accounting period beginning on 1 January 2017. For the purpose of preparing and presenting these consolidated financial statements, the Group has adopted all these new and revised HKFRSs consistently throughout both years.

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) - Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[2]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after a date to be determined
[4] Effective for annual periods beginning on or after 1 January 2021

4. REVENUE AND SEGMENT INFORMATION

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

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segment.

For the year ended 31 December 2017

	Sales of toy products *HK$'000*	**Sales of infant products** *HK$'000*	**Total** *HK$'000*
Revenue	**1,729,063**	**133,113**	**1,862,176**
Segment gross profit	**793,804**	**72,680**	**866,484**
Segment profit	**785,641**	**74,680**	**860,321**
Unallocated income			**6,833**
Unallocated expenses			**(773,199)**
Unallocated other gains and losses			**(458)**
Profit before tax			**93,497**

For the year ended 31 December 2016

	Sales of toy products *HK$'000*	Sales of infant products *HK$'000*	Total *HK$'000*
Revenue	1,475,463	162,911	1,638,374
Segment gross profit	724,669	93,121	817,790
Segment profit	728,437	94,741	823,178
Unallocated income			4,799
Unallocated expenses			(711,589)
Unallocated other gains and losses			1,256
Profit before tax			117,644

Segment profit represents the profit before tax earned by each segment without allocation of other gains and losses, interest income, government grants, sundry income and other unallocated expenses including certain selling and distribution expenses, general and administrative expenses, listing expenses and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

As at 31 December 2017

	Sales of toy products *HK$'000*	**Sales of infant products** *HK$'000*	**Total** *HK$'000*
Segment assets	**495,810**	**121,880**	**617,690**
Unallocated assets			**721,286**
Consolidated total assets			**1,338,976**
Segment liabilities	**279,268**	**23,847**	**303,115**
Unallocated liabilities			**120,466**
Consolidated total liabilities			**423,581**

As at 31 December 2016

	Sales of toy products *HK$'000*	Sales of infant products *HK$'000*	Total *HK$'000*
Segment assets	404,895	101,164	506,059
Unallocated assets			461,478
Consolidated total assets			967,537
Segment liabilities	222,294	32,465	254,759
Unallocated liabilities			350,337
Consolidated total liabilities			605,096

For the purposes of monitoring segment performance and allocating resources between segments, only inventories are allocated to operating segments. Other assets used jointly by reportable segments are classified as unallocated assets. Only trade payables are allocated to operating segments and other liabilities for which reportable segments are jointly liable are classified as unallocated liabilities.

Geographical information

The Group's operations are located in the People's Republic of China (the "**PRC**") and Hong Kong.

The following table provides an analysis of the Group's revenue by geographical location of customers, irrespective of the origin of the goods and information about its non-current assets by geographical location of the assets.

	Revenue from external customers		Non-current assets*	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC	**1,768,212**	1,606,098	**45,000**	42,683
Hong Kong	**93,964**	32,276	**14,274**	6,119
	1,862,176	1,638,374	**59,274**	48,802

* Non-current assets excluded rental deposits and deferred tax assets.

Information about major customers

There was no customer individually contributing over 10% of the total revenue during the respective years.

5. OTHER INCOME

	2017	2016
	HK$'000	*HK$'000*
Interest income	**446**	429
Promotion income from brand owners	**19,106**	15,575
Government grants *(note)*	**4,617**	2,684
Sundries	**1,770**	1,686
	25,939	20,374

Note: The Group received government grants for its business development, which is unconditionally provided by the PRC local government.

6. OTHER GAINS AND LOSSES

	2017	2016
	HK$'000	*HK$'000*
Net exchange loss	**(1,028)**	(915)
Net loss on disposal of property, plant and equipment	**(11)**	(13)
(Allowance for doubtful debts) reversal of allowance for doubtful debts, net	**(347)**	2,107
Reversal of provision of reinstatement costs	**1,228**	98
Others	**(300)**	(21)
	(458)	1,256

7. INCOME TAX EXPENSE

	2017	2016
	HK$'000	*HK$'000*
Current tax charge		
– Hong Kong Profits Tax	**707**	1,613
– PRC withholding taxes	**3,146**	4,330
– PRC Enterprise Income Tax	**23,109**	19,924
	26,962	25,867
(Over) under provision in prior years		
– Hong Kong Profits Tax	**(343)**	873
Deferred tax	**1,512**	918
	28,131	27,658

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profits for both years.

The income tax rate of the PRC subsidiaries is 25% for both years.

As approved by various competent tax bureaus, PRC withholding taxes relating to intra-group distributorship development and maintenance service fee are subject to statutory tax rate of 25% on their respective deemed taxable income or the tax rate of 10% on taxable revenue in accordance with the prescribed tax calculation method pursuant to the applicable PRC tax regulations.

8. PROFIT FOR THE YEAR

	2017	2016
	HK$'000	*HK$'000*
Profit for the year is arrived at after charging:		
Directors' remuneration	**5,899**	657
Other staff costs	**127,970**	162,172
Retirement benefit schemes contributions for other staff	**30,781**	36,723
Share-based payment expense for other staff	**2,650**	–
Total staff costs	**167,300**	199,552
Depreciation of property, plant and equipment	**32,846**	22,410
Operating lease rentals in respect of		
– rented premises of warehouse (included in selling and distribution expenses)	**19,543**	15,928
– rented premises of office (included in general and administrative expenses)	**13,170**	10,456
– retail shops (included in selling and distribution expenses)	**119,691**	95,279
– consignment counters (included in selling and distribution expenses)	**5,757**	5,147
	158,161	126,810

9. DIVIDENDS

	2017	2016
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year	**50,000**	–

On 7 June 2017, a special dividend of HK$50,000,000 was declared and approved by the directors of the Company to Lovable International Holdings.

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2017 of HK2.23 cents (2016: nil) per ordinary share, in an aggregate amount of approximately HK$17,840,000 (2016: nil), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2017	2016
	HK$'000	*HK$'000*
Earnings		
Earnings attributable to the owners of the Company for the purpose of calculation of basic earnings per share	**59,352**	89,200
Earnings attributable to the owners of the Company for the purpose of calculation of diluted earnings per share	**59,352**	N/A

	2017	2016
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**628,493**	600,000
Effect of diluted potential ordinary shares in respect of outstanding share options	**265**	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**628,758**	N/A

The number of ordinary shares for the purpose of basic and diluted earnings per share for the year ended 31 December 2017 and basic earnings per share for the year ended 31 December 2016 has taken into account the shares issued pursuant to the Reorganisation as set out in note 2 and the capitalisation issue.

The computation of diluted earnings per share for the year ended 31 December 2017 does not assume the exercise of the Company's certain share options because the exercise price of those options was higher than the average market price for shares during the period from the grant date of those share options to 31 December 2017.

No diluted earnings per share was presented for the year ended 31 December 2016 as there was no potential ordinary share outstanding during that year.

11. TRADE RECEIVABLES

	2017 *HK$'000*	2016 *HK$'000*
Trade receivables	**194,041**	142,997
Less: Allowance for doubtful debts	**(2,457)**	(1,958)
	191,584	141,039

The Group's retail sales are made through its self-operated retail network comprising stand-alone retail shops and consignment counters in department stores. The Group also sells directly to retailers in the PRC. Sales at self-operated retail shops in the PRC are transacted either by cash, credit cards, Alipay or WeChat Pay in which the settlement period is normally within 2 days from transaction date. For sales made at consignment counters, the department stores make collection from the ultimate customers and then pay the balance after deducting the consignment expenses to the Group. The credit period granted to department stores ranges from 30 days to 180 days.

The Group's distribution business is operated through sales to online key accounts, offline distributors and hypermarket and supermarket chains in the PRC. The Group's trading terms with its distributors and hypermarket and supermarket chains are mainly on credit, while in general for the offline distributors are in cash. The credit period granted to a few offline distributors, online key accounts and hypermarket and supermarket chains ranges from 15 days to 60 days.

The following is an aged analysis of trade receivables, net of allowance for doubtful debts, presented based on the revenue recognition at the end of the reporting period.

	2017 *HK$'000*	2016 *HK$'000*
Within 30 days	**151,141**	108,759
31 to 60 days	**18,027**	16,673
61 to 90 days	**9,939**	8,066
91 to 180 days	**8,588**	5,473
181 to 365 days	**3,889**	988
Over 365 days	**–**	1,080
	191,584	141,039

12. TRADE PAYABLES

The aged analysis of the Group's trade payables, based on invoice date, is as follows:

	2017 *HK$'000*	2016 *HK$'000*
Within 30 days	**192,790**	167,980
31 to 60 days	**84,199**	77,601
61 to 90 days	**23,606**	8,999
Over 90 days	**2,520**	179
	303,115	254,759

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

2017 was a challenging year for the Group's business. Despite an increase in the Group's revenue of approximately HK$223.8 million, representing a 14% increase from prior year, and more stringent cost control measures implemented during the year, we have recorded a decrease in net profit of approximately HK$24.6 million, representing a 27% decrease from prior year, mainly due to (i) the decline in gross profit margin of 3.4% from 49.9% in 2016 to 46.5% in 2017; (ii) increase in general and administrative expenses for larger scale of operations and compliance costs; (iii) share-based payment expenses of approximately HK$3.7 million regarding the share options granted in 2017; and (iv) non-recurring listing expenses in connection with the listing of the Company's shares in November 2017.

Increase in the Group's revenue was mainly brought by (i) the increase in the number of retail points; (ii) the increase in comparable retail points sales and (iii) the rapid growth in the online sales.

Despite the Group's operating results being considerably affected by the abovementioned matters, we have continued to strengthen our leadership role and competitive advantages over the broader market through improvement of the consumer experience and further enhancement of our brand portfolio to ensure that we are delivering an optimal mix of the latest products to our customers in a timely manner. We also strive to improve our gross profit margin by introducing more high quality new brands. On the other hand, we continue to exercise stringent cost control measures and enhance the overall store efficiency in order to improve the Group's cost structure.

EXECUTIVE SUMMARY

Business Developments

Self-operated retail channels

We continued to strengthen the Group's extensive retail network in the PRC. Our retail channels are self-operated and comprise (i) retail shops; (ii) consignment counters in department stores and a renowned global toy store chain and (iii) online stores. During the year, we continued to strategically expand our retail network into prime locations so as to capture the growth opportunities from our target customers. As at 31 December 2017, we sold our products through 242 retail shops and 535 consignment counters, which sum up to 777 retail points, representing an increase of 37 retail points or 5% compared to 2016. These retail points were located in 77 cities across 25 provinces, autonomous regions and municipalities in the PRC, of which 568 of our retail points were located in Tier 1 and Tier 2 cities, and 209 were in Tier 3 cities. Our retail shops and consignment counters in the PRC are mainly located in well-known department stores or major shopping malls in Tier 1, Tier 2 and Tier 3 cities. We also had three retail shops (being LEGO Certified Store ("**LCS**")) in Hong Kong as at 31 December 2017. To capture the market growth brought by the digital age, in addition to our retail points, we also operated 14 online stores on third party-operated online platforms as at 31 December 2017.

Retail shops

Our retail shops include both single-brand shops (i.e. those which sell products of the same brand, such as LEGO and Chicco) and multi-brand shops (i.e. those which are operated in our own brands and distribute different branded toys and infant products, namely, Kidsland and Babyland). Kidsland store houses multiple brands offering toys for children, while Babyland store offering toys and infant products for babies and infants.

The following table sets forth the revenue contribution from each type of our retail shops for the years indicated:

	2017 ***HK$' million***	2016 *HK$' million*
Multi-brand retail shops		
– Kidsland stores	**405.0**	346.5
– Babyland stores	**24.6**	25.5
Sub-total:	**429.6**	372.0
Single-brand retail shops		
– LEGO brand stores/LCS	**151.9**	66.8
– CHICCO brand stores	**2.4**	2.1
– French kids apparel brand stores	**1.3**	2.5
Sub-total:	**155.6**	71.4
Total:	**585.2**	443.4

The following table sets forth the changes in the number of our retail shops for the years indicated:

	2017	2016
Retail shops		
At the beginning of the year	**216**	198
Addition of new retail shops	**49**	37
Closing of retail shops	**(23)**	(19)
Net increase in the number of retail shops	**26**	18
At the end of the year	**242**	216

During 2017, we strategically expanded our Kidsland retail shop network into prime locations, occupying key shopping malls to attract more target customers, resulting in Kidsland retail shops recorded a growth of approximately HK$58.5 million in revenue. Besides, during the year, we have introduced LCS in the PRC, a new concept of flagship LEGO shops which was first introduced in Hong Kong in 2016. We have opened three LCS in the PRC in 2017. For Hong Kong, while we continued to place more efforts to boost sales of the LCS opened in 2016, we introduced two more LCS to cater market demand from different districts. These together brought a growth in our LEGO brand stores/LCS sales during 2017.

Consignment counters

Some of our consignment counters located at department stores are operated under the brands of Kidsland and Babyland. We have entered into consignment agreements with department stores and a renowned global toy store chain to open and operate consignment counters.

During 2017, we continued to strategically select well-known department stores to open our consignment counters. The following table sets forth the changes in the number of our consignment counters for the years indicated:

	2017	2016
Consignment counters		
At the beginning of the year	**524**	497
Addition of new consignment counters	**86**	81
Closing of consignment counters	**(75)**	(54)
Net increase in the number of consignment counters	**11**	27
At the end of the year	**535**	524

Online stores

To access China's rapidly growing online retail market, we launched Kidsland and Babyland stores, and brand flagship stores, including Silverlit, Aprica, K's Kids, OXO, Siku, Schleich and Chicco, on different third-party operated online platforms, such as Tmall, JD.com Xiaohongshu (小紅書) and Kaola (網易考拉), for the sale of products distributed by the Group in the PRC, such as construction toys, wooden toys, electronic products, action figures, baby strollers, infant car seats, and accessories for infants.

As at 31 December 2017, we established ten flagship online stores on Tmall, two online stores on JD.com, a Kidsland store on Xiaohongshu and a Kidsland store on Kaola. Other than our online Kidsland store, each of our online stores offers flagship products under its respective brand.

Wholesale channels

In addition to self-operated retail channels, we also expanded our distribution network in the wholesale channel, comprising (i) distributors; (ii) hypermarket and supermarket chains; and (iii) online key accounts in the PRC.

Distributors

As at 31 December 2017, we had 962 distributors, which operated a total of over 2,900 retail shops in 129 cities across 31 provinces, autonomous regions and municipalities in the PRC. These distributors purchase our products and then on sell them through their own retail shops or third party retailers. Same as prior years, in 2017, in order to expand our network into places with promising market demand but without our self-operated retail point, we have engaged distributors based on our strict selection criteria. Selling our products to distributors allows us to utilise their distribution capability, reduce our logistics and warehousing costs and improve our working capital position. By carefully utilising distributors' geographical base, locations of their retail points, distribution network, experience in retail and management, management style, business strategies, financial resources, delivery capabilities and warehousing capacities, we have built an extensive distribution network across the PRC.

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

	2017	2016
Distributors		
At the beginning of the year	**805**	694
Addition of new distributors	**374**	290
Expiry without renewal of agreements with distributors	**(217)**	(179)
Net increase in the number of distributors	**157**	111
At the end of the year	**962**	805

Hypermarket and Supermarket Chains

The Group sells our products to some hypermarket and supermarket chains which have presence across the PRC. Generally, hypermarkets and supermarkets are broadly categorised into (i) shopping clubs with membership system, (ii) upscale supermarkets, (iii) community supermarkets; and (iv) convenience stores. We select hypermarket and supermarket chains on the basis of their market position, retail network, logistics capabilities, financial conditions and compatibility with our business strategies. We generally expect hypermarket and supermarket chains to have electronic sales reporting system which allows us to access information in such system, so that we can conduct real time reconciliation of sales records. Sale of our products at hypermarket and supermarket chains enables our products to reach wider groups of end-users and bring positive sales results.

As at 31 December 2017, we had wholesale arrangement with 14 hypermarket and supermarket chains in the PRC. As at 31 December 2017, these hypermarket and supermarket chains had 640 retails points in Tier 1, 2 and 3 cities (based on the information provided by the hypermarket and supermarket chains).

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

	2017	2016
Hypermarket and supermarket chains		
At the beginning of the year	**12**	8
Addition of new hypermarket and supermarket chains	**3**	4
Termination or expiry of agreements with hypermarket and supermarket chains	**(1)**	–
Net increase in the number of hypermarket and supermarket chains	**2**	4
At the end of the year	**14**	12

Online Key Accounts

Online shopping has rapidly grown to become one of the mainstream distribution channels in the PRC. To access this rapidly growing online market, our products are sold through the online platforms of our online key accounts, such as JD.com, Amazon, VIP.com, Dangdang and Suning. We select our online key accounts on the basis of their reputation, financial condition and market share. During 2017, the number of our online key accounts was relatively stable.

The following table sets forth the changes in the number of online key accounts for the years indicated:

	2017	2016
Online key accounts		
At the beginning of the year	**14**	11
Addition of new online key accounts	**5**	4
Termination or expiry of agreements with online key accounts	**(6)**	(1)
Net (decrease)/increase in the number of online key accounts	**(1)**	3
At the end of the year	**13**	14

FINANCIAL REVIEW

Revenue

For 2017, the revenue of the Group increased by 14% from approximately HK$1,638.4 million for 2016 to approximately HK$1,862.2 million. The increase in revenue was mainly due to (i) the increase in the number of retail points; (ii) the increase in comparable retail points sales; and (iii) the rapid growth in the online sales.

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

	2017	2016
	HK$'000	*HK$'000*
Self-operated retail channels		
– Retail shops	**585,203**	443,372
– Consignment counters	**580,465**	538,993
– Online stores	**90,271**	65,344
Sub-total:	**1,255,939**	1,047,709
Wholesale channels		
– Online/offline wholesale		
Distributors	**499,916**	514,195
Hypermarkets and supermarket chains	**48,706**	35,931
Online key accounts	**57,615**	40,539
Sub-total:	**606,237**	590,665
Total:	**1,862,176**	1,638,374

During 2017, sales of toy products accounted for 92.9% (2016: 90.1%) of our revenue and sales of infant products accounted for 7.1% (2016: 9.9%) of our revenue.

Same as prior year, for 2017, the Group's revenue was mainly contributed by self-operated retail channels. During 2017, revenue of our self-operated retail channels grew faster than that of our wholesale channels. This is mainly due to (i) the increase in the number of our retail points; (ii) the increase in comparable retail points sales; and (iii) the rapid growth in online stores' sales in 2017. The increase in spending power of the residents in Tier 1 and Tier 2 cities, of which our retail points are located, fueled the Group's retail sales growth. The Group's revenue contributed by wholesale channels, on the other hand, was relatively stable and experiencing a lower level of expansion.

Self-operated retail channels

For 2017, revenue contributed by self-operated retail channels increased by 20% from approximately HK$1,047.7 million for 2016 to approximately HK$1,256.0 million. Same as prior year, revenue of self-operated retail channels was mainly contributed by consignment counters. However, due to (i) the increase in the number of retail shops; (ii) the introduction of three LCS in the PRC and two new LCS in Hong Kong during 2017, which generated a higher sales per square foot compared to Kidsland and Babyland shops; and (iii) the rapid development of online stores, the proportionate sales of consignment counters decreased while that of the retail shops and online stores increased.

The following table sets forth our comparable retail points sales for the years indicated:

		2017	2016
Self-operated retail points			
A.	Retail shops		
	Number of comparable retail shops*	**159**	130
	Average revenue per comparable retail shop		
	– current year (RMB’000)	**2,189.1**	2,432.4
	– prior year (RMB’000)	**2,014.6**	2,256.0
	Growth in comparable retail shops sales during comparable period	**8.7%**	7.8%
B.	Consignment counters		
	Number of comparable consignment counters*	**376**	371
	Average revenue per comparable consignment counter		
	– current year (RMB’000)	**1,153.4**	1,193.9
	– prior year (RMB’000)	**1,117.3**	1,246.1
	Growth in comparable consignment counters sales during comparable period	**3.2%**	(4.2)%
C.	Overall		
	Number of comparable retail points*	**535**	501
	Average revenue per comparable retail point		
	– current year (RMB’000)	**1,461.2**	1,515.3
	– prior year (RMB’000)	**1,384.0**	1,508.1
	Growth in comparable retail points sales during comparable period	**5.6%**	0.5%

* Comparable retail points sales refer to revenue generated from our self-operated retail points existing at the end of the relevant financial year, which have been operating continuously for at least 24 months immediately prior to the end of that financial year. For example, the comparable self-operated retail points for 2016 and 2017 are retail points that were open throughout both 2016 and 2017. Difference between number of comparable retail points and total number of retail points is attributable to retail points opened or closed or under renovation during the years under comparison. Our calculation of comparable retail points sales information may be different from those adopted by other companies, and our comparable retail points sales information may not be comparable to the comparable retail points sales information reported by other companies.

The Group's comparable retail points sales growth of our retail shops increased from 7.8% for 2016 to 8.7% for 2017, and our comparable retail points sales growth of our consignment counters increased from (4.2)% for 2016 to 3.2% for 2017. Such increase was a result of our effort in optimizing the location mix of our retail points such that the average sales per square foot of our retail points was enhanced.

Wholesale channels

For 2017, the revenue contributed by wholesale channels increased by 3% from approximately HK$590.7 million for 2016 to approximately HK$606.2 million. Same as prior year, a majority of the revenue of wholesale channels was contributed by distributors.

Cost of Sales, Gross Profit and Gross Profit Margin

Cost of sales increased by 21% from approximately HK$820.6 million for 2016 to approximately HK$995.7 million for 2017. The increase was mainly due to the increase in sales volume. However, due to the decrease in the selling prices of some of our major products in the fourth quarter of 2017 as a result of the aggressive pricing strategy adopted by some of the major players in the PRC, gross profit margin of the Group decreased from 49.9% in 2016 to 46.5% in 2017. As a result of the foregoing, gross profit of the Group increased from approximately HK$817.8 million for 2016 to approximately HK$866.5 million for 2017.

Other Income

Other income increased by approximately HK$5.5 million from approximately HK$20.4 million for 2016 to approximately HK$25.9 million for 2017. Other income mainly consists of promotion income from brand owners and government grants. The increase was mainly attributable to the increase in promotion income from brand owners.

Other Gains and Losses

Other gains and losses decreased by approximately HK$1.8 million from a gain of approximately HK$1.3 million for 2016 to a loss of approximately HK$0.5 million for 2017. Other gains and losses mainly consists of (allowance for doubtful debt) reversal of allowance for doubtful debts and net exchange loss. The decrease was mainly attributable to the decrease in reversal of allowance for doubtful debts.

Selling and Distribution Expenses

Selling and distribution expenses primarily consist of consignment expenses, rental expenses and building management fee, salaries, other benefits and retirement benefit schemes contribution and advertising and promotion costs. Selling and distribution expenses increased by 6% from approximately HK$648.8 million for 2016 to approximately HK$688.5 million for 2017, which was mainly attributable to the increase in the number of the Group's retail points.

General and Administrative Expenses

General and administrative expenses primarily consist of salaries, other benefits and retirement benefit schemes contribution, rental expenses and building management fees, office expenses and other general and administrative expenses. The administrative expenses increased by 39% from approximately HK$64.4 million for 2016 to approximately HK$89.8 million for 2017. The increase was mainly due to the expansion of the Group's business and the increase in professional fees for compliance costs.

Listing Expenses

Listing expenses represented fees to various professional parties in connection with the Listing. Listing expenses increased by 134% from approximately HK$8.5 million for 2016 to approximately HK$19.9 million for 2017, primarily because most of the work by professional parties was performed in 2017.

Finance Costs

For 2017, the Group's finance costs represented interest expenses arising from the bank loan drawn during the year.

Profit Before Tax

As a result of the foregoing, the profit before tax of the Group decreased by 21% from approximately HK$117.6 million for 2016 to approximately HK$93.5 million for 2017.

Income Tax

The Group's income tax expense increased from approximately HK$27.7 million for 2016 to approximately HK$28.1 million for 2017.

Profit and EBITDA for the Year

Profit of the Group for 2017 decreased by 27% from approximately HK$90.0 million for 2016 to approximately HK$65.4 million for 2017. Excluding the non-recurring listing expenses and share-based payment expenses in aggregate of approximately HK$23.6 million, profit for the year decreased by 10%.

EBITDA of the Group for 2017 decreased by 10% from approximately HK$139.6 million for 2016 to approximately HK$126.2 million for 2017. Excluding the non-recurring listing expenses and share-based payment expenses in aggregate of approximately HK$23.6 million, EBITDA for the year increased by 1%.

Inventory

The inventory turnover days of the Group decreased from 211 days in 2016 to 206 days in 2017. The decrease in inventory turnover days was mainly due to the tighter control of inventory level.

Capital Expenditure

During the year, the Group invested approximately HK$40.3 million (2016: approximately HK$38.1 million) in property, plant and equipment, primarily attributable to the increase in the number of the Group's retail points.

Liquidity and Financial Resources

The Group's cash and bank balances as at 31 December 2017 were approximately HK$311.7 million compared to approximately HK$173.4 million as at 31 December 2016. The current ratio and quick ratio as at 31 December 2017 were 3.0 and 1.5 respectively (31 December 2016: 1.5 and 0.6 respectively).

As at 31 December 2017, the Group had aggregate banking facilities of approximately HK$90.0 million (31 December 2016: approximately HK$23.0 million) for bank loans and trade financing, of which approximately HK$84.9 million (31 December 2016: approximately HK$18.7 million) was unutilised as at the same date. These facilities are secured by corporate guarantees provided by the Company.

Charge of Assets

As at 31 December 2017, no charges was made on the Group's assets (31 December 2016: Nil).

Contingent Liabilities

As at 31 December 2017, the Group did not have significant contingent liabilities (31 December 2016: Nil).

Foreign Exchange

The Group is exposed to foreign exchange risk arising from exposure in the Euros, Japanese Yen and Chinese Renminbi against the Hong Kong dollars. Although management monitors the foreign exchange risks of the Group on a regular basis, fluctuations in the value of the Hong Kong Dollar against other currencies could affect our margins and profitability.

PROSPECTS

We anticipate that 2018 will be another eventful year fueled by uncertainties over economic adjustment in the PRC. Consumer spending momentum is, in general, projected to go moderately upward. For instance, the ongoing increase in per capita spending power of the Chinese middle class may fuel the increase in general market demand for toy and infant products. Moreover, the relaxation of the two-child policy is expected to drive market growth for the overall toys and games industry in China.

We also see growth opportunities in the coming year that we plan to capitalise on with an aim to expand our distribution network, China in particular. We plan to increase market share across all distribution channels that include our multi-brands, single-brand, and shop-in-shop formats alongside our digital channel. Besides, in response to the emerging demand from digital platform users, we will put more effort on enhancing our online shopping experience and online distribution network, hence developing our online sales. We aim to continue our growth in the proportionate sales of our online stores and online key accounts in the future.

Moreover, we will continue to optimise our product mix by entering into distribution agreements with selected high quality toy and infant product brands to expand our product line. For instance, we have entered into a cooperation agreement and distribution agreements with ThreeSixty Sourcing Limited and two subsidiaries of MGA Entertainment Inc. in the first quarter of 2018. We believe these will broaden our product range and enhance our customers' shopping experience by introducing a new type of flagship store to the China market.

We are confident that the Group is even better equipped after difficult times and is well positioned for changes in the industry. We are looking forward to delivering strong collections of the latest and distinctive toy and infant product brands and to the launch of new concepts, such as experience centres. Besides, we will strengthen the recognition of our existing brands and enhance consumer loyalty and develop in skills and strategies on launching our own private labels or proprietary brands to ensure uniqueness. We will pursue our sustainable growth strategy by further leveraging the competitive strengths and advantages we have successfully developed, including our solid financial fundamentals, a well-balanced business around a portfolio of diverse yet complementary toy and infant product brands, and our leading position in the toy retailing industry.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING (THE "IPO")

The Company's shares first became listed on the Main Board of the Stock Exchange on 10 November 2017 (the "**Listing Date**"). Net proceeds (after deduction of the underwriting commissions and other estimated offering expenses payable by the Company) amounted to about HK$288.3 million. Up to 31 December 2017, about HK$2.4 million of such net proceeds was spent broadly in accordance with the Company's plan as disclosed in the prospectus of the Company dated 31 October 2017 on expanding the Group's retail network in the PRC and Hong Kong. The Directors will continue to evaluate the Group's business objectives, performance and economic situation, and may change or modify plans against the changing market condition to better deploy resources and proceeds of the IPO. Announcement will be made regarding any material adjustment of the use of proceeds if and when appropriate.

The remaining balance of such net proceeds was kept in banks and approved financial institutions in Hong Kong.

FINAL DIVIDEND

The Directors recommended the payment of a final dividend of HK2.23 cents (2016: nil) per ordinary share for the year ended 31 December 2017. Subject to the approval of shareholders at the forthcoming annual general meeting of the Company, the proposed final dividend will be payable on Wednesday, 13 June 2018 to shareholders whose names appear on the register of members on Friday, 1 June 2018.

ANNUAL GENERAL MEETING

The Company's annual general meeting is currently planned to be held on Friday, 25 May 2018 (the "**2018 AGM**"). A notice convening the 2018 AGM and all other relevant documents will be published and dispatched to the shareholders of the Company in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") in due course.

CLOSURE OF REGISTER OF MEMBERS FOR THE 2018 AGM AND FINAL DIVIDEND

For determining the entitlement to attend and vote at the 2018 AGM, the register of members of the Company will be closed from Monday, 21 May 2018 to Friday, 25 May 2018, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2018 AGM, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 18 May 2018.

The proposed final dividend is subject to the passing of an ordinary resolution by the shareholders at the 2018 AGM. The record date for entitlement to the proposed final dividend is scheduled on Friday, 1 June 2018. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Thursday, 31 May 2018 to Friday, 1 June 2018, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, for registration not later than 4:30 p.m. on Wednesday, 30 May 2018.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities since the Listing Date and up to 31 December 2017.

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITION AND DISPOSAL

The Group did not hold any significant investment nor did the Group carry out any material acquisition and disposal during the year ended 31 December 2017.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2017, the Group had approximately 2,300 employees (2016: approximately 2,200 employees) located in the PRC and Hong Kong. Total remuneration for the year ended 31 December 2017 amounted to approximately HK$167.3 million (2016: approximately HK$199.6 million). The Group's remuneration packages are in line with the current legislation in the relevant jurisdictions, the experience and qualifications of individual employees and the general market conditions. Bonuses are linked to the Group's financial results as well as to individual performances. The Group ensures that adequate training and professional development opportunities are provided to all employees so as to satisfy their career development needs.

EVENT AFTER REPORTING PERIOD

The Group does not have any material subsequent event after 31 December 2017 and up to the date of this announcement.

PUBLIC FLOAT

As far as the Company is aware, as at the date of this announcement, the Company has maintained a sufficient public float with more than 25% of the issued shares of the Company being held by the public.

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules. The Company has complied with all the code provisions as set out in the CG Code since the Listing Date and up to 31 December 2017 except for the deviation as stated below:

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

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standards of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**"). Having made specific enquiry of the Directors of the Company, all Directors confirmed that they have complied with the required standards set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions since the Listing Date and up to 31 December 2017.

AUDIT COMMITTEE AND REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

As at the date of this announcement, the audit committee of the Board (the "**Audit Committee**") comprises three independent non-executive Directors, namely Mr. Cheng Yuk Wo (chairman of the Audit Committee), Dr. Lam Lee G. and Mr. Huang Lester Garson.

The consolidated financial statements of the Group for the year ended 31 December 2017 have been reviewed and approved by the Audit Committee, and the Audit Committee is of the opinion that such financial statements comply with the applicable accounting standards, the Listing Rules and all other applicable legal requirements. The Audit Committee therefore recommended the Board's approval of the Group's consolidated financial statements for the year ended 31 December 2017.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Company's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related note thereto for the year ended 31 December 2017 have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Company's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Deloitte Touche Tohmatsu on this announcement.

PUBLICATION OF THE RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The results announcement for the year ended 31 December 2017 is published on the website of the Company (www.kidslandholdings.com) and the Stock Exchange (www.hkexnews.hk). The Company's 2017 annual report will be dispatched to the shareholders of the Company and made available on the above websites in due course.

GRATITUDE

I, on behalf of the Board, would like to take this opportunity to express its sincere gratitude to all our staff for their dedication and cooperation and to all our shareholders for their support.

By order of the Board
Kidsland International Holdings Limited
Lee Ching Yiu
Chairman of the Board,
Chief Executive Officer
and Executive Director

Hong Kong, 21 March 2018

As at the date of this announcement, the Board comprises (i) three executive directors, namely, Mr. Lee Ching Yiu, Dr. Lo Wing Yan William, and Ms. Zhong Mei, (ii) two non-executive directors, namely, Mr. Du Ping, and Ms. Duan Lanchun, and (iii) three independent non-executive directors, namely, Dr. Lam Lee G., Mr. Huang Lester Garson, and Mr. Cheng Yuk Wo.