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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

HIGHLIGHTS OF 2018 INTERIM RESULTS

- The Group has recorded a 11% increase in revenue from approximately HK$900.3 million to approximately HK$997.9 million compared with the six months ended 30 June 2017 ("prior period").

- Gross profit for the period was approximately HK$427.0 million, representing a slight decrease of approximately HK$5.2 million or 1% from prior period, with gross profit margin decreased from 48.0% to 42.8%.

- EBITDA (Earnings before interest income, income tax, depreciation and amortisation) for the period decreased by 150% from a profit of approximately HK$71.6 million to a loss of approximately HK$35.5 million.

- The Group recorded a loss for the period of approximately HK$60.7 million as compared to a profit of HK$41.2 million for the prior period.

- The Board has resolved not to declare any interim dividend.

RESULTS

The board (the "Board") of directors (the "Directors") of Kidsland International Holdings Limited (the "Company") hereby announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2018, prepared on the basis set out in Note 1 below, together with the comparative figures for the six months ended 30 June 2017, as follows.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

		Six months ended 30 June	
		2018	2017
	NOTES	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Revenue	*3*	**997,882**	900,343
Cost of goods sold		**(570,920)**	(468,182)
Gross profit		**426,962**	432,161
Other income	*4*	**12,789**	10,308
Other gains and losses	*5*	**(5,222)**	(3,652)
Impairment loss, net of reversal		**(2,130)**	–
Selling and distribution expenses		**(420,038)**	(334,527)
General and administrative expenses		**(69,907)**	(42,851)
Listing expenses		**–**	(5,814)
(Loss) profit before tax		**(57,546)**	55,625
Income tax expense	*6*	**(3,114)**	(14,403)
(Loss) profit for the period	*7*	**(60,660)**	41,222
Other comprehensive (expense) income			
Item that will not be reclassified subsequently to profit or loss			
Exchange differences arising from translation of functional currency to presentation currency		**(23,364)**	(18,887)
Item that may be reclassified subsequently to profit or loss			
Exchange differences on translation of financial statements of foreign operations		**9,943**	2,872
Other comprehensive expense for the period, net of income tax		**(13,421)**	(16,015)
Total comprehensive (expense) income for the period		**(74,081)**	25,207

	NOTE	Six months ended 30 June **2018** ***HK$'000*** **(unaudited)**	 2017 *HK$'000* (unaudited)
(Loss) profit for the period attributable to:			
Owners of the Company		**(64,216)**	38,737
Non-controlling interest		**3,556**	2,485
		(60,660)	41,222
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		**(77,294)**	23,437
Non-controlling interest		**3,213**	1,770
		(74,081)	25,207
Basic (loss) earnings per share	*9*	**(HK8.03 cents)**	HK6.46 cents
Diluted (loss) earnings per share	*9*	**(HK8.03 cents)**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	At 30 June 2018 HK$'000 (unaudited)	At 31 December 2017 HK$'000 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**63,456**	59,274
Financial asset at fair value through profit or loss ("FVTPL")		**18,656**	–
Deposit paid for acquisition of intangible assets		**11,612**	–
Deposit paid for acquisition of property, plant and equipment		**1,244**	–
Rental deposits		**28,752**	24,919
Deferred tax assets		**12,758**	9,767
		136,478	93,960
Current assets			
Inventories		**598,056**	617,690
Trade receivables	*10*	**216,732**	191,584
Other receivables, deposits and prepayments		**133,518**	124,070
Bank balances and cash		**157,454**	311,672
		1,105,760	1,245,016
LIABILITIES			
Current liabilities			
Trade payables	*11*	**250,855**	303,115
Other payables and accruals		**86,313**	101,121
Contract liabilities		**46,054**	–
Refund liabilities		**1,302**	–
Amounts due to related parties		**904**	38
Current tax liabilities		**7,417**	7,237
		392,845	411,511
Non-current liability			
Provision for reinstatement costs		**12,030**	12,070
Net current assets		**712,915**	833,505
Total assets less current liabilities		**849,393**	927,465
Net assets		**837,363**	915,395
EQUITY			
Owners of the Company			
Share capital		**8,000**	8,000
Reserves		**813,099**	894,344
		821,099	902,344
Non-controlling interest		**16,264**	13,051
Total equity		**837,363**	915,395

Notes

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Prior to a group reorganisation (the "Reorganisation"), Kidsland Holdings Limited ("Kidsland Holdings") and Silverkids Inc. ("Silverkids"), holding companies of the companies now comprising the Group, were controlled by Lovable International Holdings Limited ("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 of the Company's shares on the Mainboard of the Stock Exchange, 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 prior period. Therefore, the Reorganisation is considered as a business combination under common control and accounted for under merger accounting.

The condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2017 has 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 six months ended 30 June 2017, or since the respective date of establishment/incorporation of the relevant entity where this is a shorter period.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for the financial asset at FVTPL which is measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2.1 Impacts and changes in accounting policies on application of HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15")

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017	Reclassification	Carrying amounts under HKFRS 15 at 1 January 2018
	HK$'000	*HK$'000*	*HK$'000*
		(note a)	
Other payables and accruals	101,121	(22,741)	78,380
Contract liabilities	–	22,741	22,741

Note:

(a) As at 1 January 2018, deposits received from customers of HK$22,741,000 previously included in other payables and accruals was reclassified to contract liabilities since the underlying products are yet to be delivered.

The following table summarises the impacts of applying HKFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018. Line items that were not affected by the changes have not been included.

	As reported	Adjustments	Amounts without application of HKFRS 15
	HK$'000	*HK$'000*	*HK$'000*
		(notes a and b)	
Other payables and accruals	86,313	47,356	133,669
Contract liabilities	46,054	(46,054)	–
Refund liabilities	1,302	(1,302)	–

Notes:

(a) Certain distributors have right to return for a product in exchange during a specified period. Accordingly, without the application of HKFRS15, an amount of HK$1,302,000, being the consideration of the transferred goods that Group expects to be returned, would have been reclassified from refund liabilities to other payables and accruals.

(b) Without the application of HKFRS15, deposits received from customers of HK$46,054,000 would have been reclassified from contract liabilities to other payables and accruals since the underlying products are yet to be delivered.

There is no impact on the application of HKFRS 15 on the condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2018.

2.2 Impacts and changes in accounting policies on application of HKFRS 9 Financial Instruments ("HKFRS 9")

In the current period, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

Summary of effects arising from initial application of HKFRS 9

Impairment under expected credit loss model

As at 1 January 2018, additional credit loss allowance of HK$2,554,000 has been recognised against retained earnings. The additional loss allowance is charged against the trade receivables.

	Allowance for doubtful debts, net *HK$'000*
Reconciliation:	
At 31 December 2017 (audited)	
– HKAS 39	(2,457)
Amounts remeasured through opening retained earnings	(2,554)
At 1 January 2018 (unaudited)	(5,011)

Except as described above, the application of amendments to HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in trading and sales of toy and infant products.

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.

Six months ended 30 June 2018

	Sales of toy products *HK$'000* (unaudited)	Sales of infant products *HK$'000* (unaudited)	Total *HK$'000* (unaudited)
Revenue	**918,083**	**79,799**	**997,882**
Segment gross profit	**390,645**	**36,317**	**426,962**
Segment profit	**378,921**	**37,989**	**416,910**
Unallocated income			**5,903**
Unallocated expenses			**(473,007)**
Unallocated impairment loss, net of reversal			**(2,130)**
Unallocated other gains and losses			**(5,222)**
Loss before tax			**(57,546)**

Six months ended 30 June 2017

	Sales of toy products *HK$'000* (unaudited)	Sales of infant products *HK$'000* (unaudited)	Total *HK$'000* (unaudited)
Revenue	815,749	84,594	900,343
Segment gross profit	381,637	50,524	432,161
Segment profit	378,635	50,524	429,159
Unallocated income			4,931
Unallocated expenses			(374,813)
Unallocated other gains and losses			(3,652)
Profit before tax			55,625

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit represents the (loss) profit before tax (incurred) earned by each segment without allocation of other gains and losses, impairment loss, net of reversal, interest income, government grants, sundry income and other unallocated expenses including certain selling and distribution expenses, general and administrative expenses and listing expenses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

4. OTHER INCOME

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interest income	**141**	261
Promotion income from brand owners	**6,886**	5,377
Government grants *(note)*	**4,798**	4,527
Sundry income	**964**	143
	12,789	10,308

Note: The Group received government grants for its business development, which is unconditionally provided by the People's Republic of China (the "PRC") local government.

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Net exchange loss	**(4,388)**	(3,058)
Loss on fair value changes of financial asset at FVTPL	**(139)**	–
Others	**(695)**	(594)
	(5,222)	(3,652)

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current tax:		
Hong Kong Profits Tax	**846**	232
PRC withholding taxes	**2,088**	1,587
PRC EIT	**2,714**	11,765
	5,648	13,584
Deferred tax:		
Current year	**(2,534)**	819
	3,114	14,403

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

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

As approved by various competent tax bureaus, the 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.

7. (LOSS) PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
(Loss) profit for the period is arrived at after charging:		
Employee's benefits expense (including directors' emoluments)	**153,860**	96,126
Allowance for inventories, net (included in cost of goods sold)	**4,498**	4,632
Depreciation of property, plant and equipment	**22,188**	16,193
Operating lease rentals in respect of		
– rented premises of warehouse (included in selling and distribution expenses)	**11,753**	9,368
– rented premises of office (included in general and administrative expenses)	**8,831**	6,162
– retail shops (included in selling and distribution expenses)	**73,907**	59,307
– consignment counters (included in selling and distribution expenses)	**2,513**	2,010

8. DIVIDENDS

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

During the current interim period, a final dividend of HK2.23 cents per share in respect of the year ended 31 December 2017 was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the interim period amounted to HK$17,840,000.

9. (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
(Loss) earnings		
(Loss) earnings attributable to the owners of the Company for the purpose of calculation of basic (loss) earnings per share	**(64,216)**	38,737
(Loss) earnings attributable to the owners of the Company for the purpose of calculation of diluted (loss) earnings per share	**(64,216)**	N/A

	Six months ended 30 June	
	2018	2017
	'000	*'000*
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of calculation of basic earnings per share	**800,000**	600,000
Effect of dilutive potential ordinary shares in respect of outstanding share options	**–**	N/A
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	**800,000**	N/A

The number of ordinary shares for the purpose of calculation of basic earnings per share for the six months ended 30 June 2017 has taken into account the shares issued pursuant to the capitalisation issue.

The computation of diluted loss per share for the six months ended 30 June 2018 does not assume the exercise of the Company's outstanding share options since their exercise would result in a decrease in loss per share for the six months ended 30 June 2018.

No diluted earnings per share was presented for the six months ended 30 June 2017 as there was no potential ordinary share outstanding during that period.

10. TRADE RECEIVABLES

	At 30 June 2018 HK$'000 (unaudited)	At 31 December 2017 HK$'000 (audited)
Trade receivables, net	**216,732**	191,584

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

	At 30 June 2018 HK$'000 (unaudited)	At 31 December 2017 HK$'000 (audited)
Within 30 days	**134,769**	151,141
31 to 60 days	**37,211**	18,027
61 to 90 days	**27,081**	9,939
91 to 180 days	**14,613**	8,588
181 to 365 days	**3,058**	3,889
	216,732	191,584

11. TRADE PAYABLES

	At 30 June 2018 HK$'000 (unaudited)	At 31 December 2017 HK$'000 (audited)
Trade payables	**250,855**	303,115

The following is an analysis of trade payables by age, presented based on the invoice date.

	At 30 June 2018 HK$'000 (unaudited)	At 31 December 2017 HK$'000 (audited)
Within 30 days	**116,277**	192,790
31 to 60 days	**102,534**	84,199
61 to 90 days	**28,882**	23,606
Over 90 days	**3,162**	2,520
	250,855	303,115

MANAGEMENT DISCUSSION AND ANALYSIS

The first half of 2018 was challenging to the Group's business. Despite an increase in the Group's revenue of approximately HK$97.5 million, representing a 11% increase from prior period, the Group recorded a net loss of approximately HK$60.7 million, as compared to a net profit of approximately HK$41.2 million in prior period, mainly due to (i) the decline in gross profit margin of 5.2% from 48.0% to 42.8% mainly due to increase in purchase cost and more discounts offered in promotion campaigns during the period; (ii) increase in selling and distribution expenses mainly due to increase in staff costs, rental expense and consignment expenses; (iii) increase in general and administrative expenses for larger scale of operations; and (iv) increase in non-cash share-based payment expenses regarding the share options granted in 2017.

Despite the Group's operating results being considerably affected by the abovementioned matters, the Group had recorded an increase in revenue brought by an increase in the number of retail shops and the rapid growth in sales from LEGO Certified Store ("LCS"). The Group had continued to strengthen its leadership and competitive advantages through improvement in consumer experience and further enhancement of its brand portfolio to ensure that it was delivering an optimal mix of the latest products to its customers in a timely manner. The Group also strived to improve its gross profit margin by introducing more high-quality new brands. On the other hand, the Group continued to exercise stringent cost control measures and enhanced the overall store efficiency in order to improve its cost structure.

BUSINESS REVIEW AND PROSPECT

Self-Operated Retail Channels

The Group continued to strengthen its retail network in the PRC. The Group's self-operated retail channels comprised (i) retail shops; (ii) consignment counters in department stores and a global toy store chain; and (iii) online stores. During the first half of 2018, the Group continued to strategically expand its retail network into prime locations so as to capture the growth opportunities from its target customers. As at 30 June 2018, the Group sold its products through 252 retail shops and 529 consignment counters, which amounted 781 retail points. These retail points were located in 78 cities across 14 provinces, autonomous regions and municipalities in the PRC, of which 559 of the Group's retail points were located in Tier 1 and Tier 2 cities, and 219 were in Tier 3 cities. The Group's retail shops and consignment counters in the PRC were mainly located in well-known department stores or major shopping malls in Tier 1, Tier 2 and Tier 3 cities. The Group also had three retail shops (being LCS) in Hong Kong as at 30 June 2018. To capture the e-commerce market, in addition to its retail points, the Group operated 17 online stores on third party-operated online platforms as at 30 June 2018.

Retail shops

The Group's retail shops included both single-brand shops (i.e. those which sell products under brand names, such as LEGO) and multi-brand shops (i.e. those which are operated in its own brands, namely Kidsland and Babyland, and distribute different branded toys and infant products). Kidsland stores housed multiple brands offering toys for children, while Babyland stores offer baby toys and infant products for infants.

The following table sets forth the revenue contribution from each type of the Group's retail shops for the periods indicated:

	Six months ended 30 June	
	2018	2017
	HK$' million	*HK$' million*
Multi-brand retail shops	**249.6**	207.8
Single-brand retail shops		
– LCS	**115.7**	43.4
– Stores of other brands	**11.0**	5.7
Sub-total:	**126.7**	49.1
Total:	**376.3**	256.9

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

	Six months ended 30 June	
	2018	2017
Retail shops		
At the beginning of the period	**245**	217
Addition of new retail shops	**15**	20
Closing of retail shops	**(8)**	(11)
Net increase in the number of retail shops	**7**	9
At the end of the period	**252**	226

During the first half of 2018, the Group opened four more LCS in the PRC to cater to market demand from different districts. For Hong Kong, the Group continued boosting the sales of the LCS opened in 2016 and 2017. These together brought a growth in LCS sales during the first half of 2018. Besides, during the period, the Group strategically expanded its Kidsland retail network into prime locations, occupying most major shopping malls to attract target customers, resulting in a growth of approximately HK$41.8 million in revenue.

Consignment counters

Most of the Group's consignment counters located at department stores were operated under the brands of Kidsland and Babyland. The Group entered into consignment agreements with department stores and a renowned global toy store chain to open and operate consignment counters.

During the first half of 2018, the Group selectively and strategically opened consignment counters only in well-known department stores. The following table sets forth the changes in the number of consignment counters for the periods indicated:

	Six months ended 30 June	
	2018	2017
Consignment counters		
At the beginning of the period	**535**	524
Addition of new consignment counters	**25**	39
Closing of consignment counters	**(31)**	(31)
Net (decrease)/increase in the number of consignment counters	**(6)**	8
At the end of the period	**529**	532

Online stores

To access China's rapidly growing online retail market, the Group launched Kidsland stores and flagship stores of brands such as Silverlit, Aprica, K's Kids, OXO, Siku and Schleich 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 their products such as construction toys, wooden toys, electronic products, action figures, baby strollers, infant car seats, and accessories for infants.

As at 30 June 2018, the Group had established 14 flagship online stores on Tmall and Kidsland stores on JD.com, Xiaohongshu and Kaola.

Wholesale Channels

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

Distributors

As at 30 June 2018, the Group had 973 distributors, who operated over 3,000 retail shops in 141 cities across 29 provinces, autonomous regions and municipalities in the PRC. These distributors purchased the Group's products and resold them through their own retail shops or third-party retailers. The Group had strict selection criteria in engaging distributors. Selling products to distributors allows the Group to utilise their distribution capability, reduce the Group's logistics and warehousing costs and improve the Group's 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, the Group had built an extensive distribution network across the PRC.

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

	Six months ended 30 June	
	2018	2017
Distributors		
At the beginning of the period	**962**	805
Addition of new distributors	**152**	167
Expiry without renewal of agreements with distributors	**(141)**	(100)
Net increase in the number of distributors	**11**	67
At the end of the period	**973**	872

Hypermarket and Supermarket Chains

The Group sold its products to some hypermarket and supermarket chains which had presence across the PRC. Generally, hypermarkets and supermarkets were categorised into (i) shopping clubs with membership system, (ii) upscale supermarkets, (iii) community supermarkets; and (iv) convenience stores. The Group selected hypermarket and supermarket chains on the basis of their market position, retail network, logistics capabilities, financial conditions and compatibility with the Group's business strategies. The Group generally expected the hypermarket and supermarket chains to have electronic sales reporting system which allows the Group to access information in their systems, so that the Group could conduct real time reconciliation of sales records. Sale of the Group's products at hypermarket and supermarket chains enabled its products to reach wider groups of end-users and bring positive sales results.

As at 30 June 2018, the Group had wholesale arrangement with 15 hypermarket and supermarket chains in the PRC. As at 30 June 2018, these hypermarket and supermarket chains had 640 retail 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 periods indicated:

	Six months ended 30 June	
	2018	2017
Hypermarket and supermarket chains		
At the beginning of the period	**14**	12
Addition of new hypermarket and supermarket chains	**1**	2
Termination or expiry of agreements with hypermarket and supermarket chains	**–**	(1)
Net increase in the number of hypermarket and supermarket chains	**1**	1
At the end of the period	**15**	13

Online Key Accounts

Online shopping had become one of the mainstream distribution channels in the PRC. To access this rapidly growing market, the Group sold its products through online platforms operated by its online key accounts, such as JD.com, Amazon, YHD.com and Suning. The Group selected its online key accounts on the basis of their reputation, financial condition and market share. During the first half of 2018, the number of online key accounts slightly decreased.

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

	Six months ended 30 June	
	2018	2017
Online key accounts		
At the beginning of the period	**13**	14
Addition of new online key accounts	**1**	1
Termination or expiry of agreements with online key accounts	**(3)**	–
Net (decrease) increase in the number of online key accounts	**(2)**	1
At the end of the period	**11**	15

PROSPECTS

The Group considers that economic adjustments in the PRC and the trade war between the US and China will continue to add uncertainty to the retail growth outlook. However, the Group sees an increase in per capita spending power of the Chinese middle class which may fuel the increase in general market demand for toy and infant products. Moreover, the relaxation of the one-child policy is expected to drive market growth for the overall toys and games industry in China.

The Group will continue to optimise its product mix by entering into distribution agreements with more high-quality toy and infant product brands. During the year, the Group entered into a distribution agreement with FAO Schwarz. The first "FAO Schwarz" flagship store is planned to be opened at the beginning of 2019. The Group believes this will broaden its product offerings and enhance customers' shopping experience by introducing a new type of flagship store to the China market.

The Group considers itself better equipped after difficult times and is well positioned for changes in the industry. The Group is, in particular, looking forward to delivering the latest collections of its new and distinctive toy and infant products, as well as the launch of new concepts, such as experience centres. Besides, the Group will strengthen the recognition of its brands, enhance consumer loyalty and develop skills and strategies in launching the Group's own private labels. The Group will further leverage its competitive strengths and advantages, a well-balanced portfolio of diverse yet complementary toy and infant product brands, and leading position in the toy retailing industry.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2018, the revenue of the Group increased by 11% from approximately HK$900.3 million for the corresponding period in 2017 to approximately HK$997.9 million. The increase in revenue was mainly due to the increase in the number of retail shops, the rapid growth in the sales from LCS, as well as higher sales recorded for the Group's online key accounts.

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

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Self-operated retail channels		
– Retail shops	**376,262**	256,904
– Consignment counters	**333,352**	314,113
– Online stores	**45,913**	41,474
Sub-total:	**755,527**	612,491
Wholesale channels		
– Online/offline wholesale		
Distributors	**182,061**	244,773
Hypermarket and supermarket chains	**24,433**	18,004
Online key accounts	**35,861**	25,075
Sub-total:	**242,355**	287,852
Total:	**997,882**	900,343

For the six months ended 30 June 2018, sales of toy products accounted for 92.0% (six months ended 30 June 2017: 90.6%) of the Group's revenue and sales of infant products accounted for 8.0% (six months ended 30 June 2017: 9.4%) of the Group's revenue.

Same as prior period, for the first half of 2018, the Group's revenue was mainly contributed by self-operated retail channels. During the first half of 2018, revenue of the Group's self-operated retail channels grew by HK$143.0 million. This was mainly due to the increase in the number of the Group's retail shops and the rapid growth in the sales from LCS. The increase in spending power of the residents in Tier 1 and Tier 2 cities, of which the Group's retail points are located, fueled the Group's retail sales growth. Online key accounts also recorded sales growth of approximately HK$10.8 million, representing a 43% increase from prior period.

Self-operated retail channels

For the six months ended 30 June 2018, revenue contributed by self-operated retail channels increased by 23% from approximately HK$612.5 million for the six months period ended 30 June 2017 to approximately HK$755.5 million, which was mainly due to the increase in the number of retail shops and rapid growth in the sales from LCS.

The following table sets forth the Group's comparable retail points sales for the periods indicated:

	Six months ended 30 June	
	2018	2017
Self-operated retail points		
A. Retail shops		
Number of comparable retail shops*	**188**	175
Average revenue per comparable retail shop		
– current period *(RMB'000)*	**1,080.5**	1,139.4
– prior period *(RMB'000)*	**1,091.1**	1,040.1
Growth in comparable retail shops sales during comparable periods	**(1.0)%**	9.5%
B. Consignment counters		
Number of comparable consignment counters*	**440**	321
Average revenue per comparable consignment counter		
– current period *(RMB'000)*	**594.9**	747.0
– prior period *(RMB'000)*	**599.7**	731.5
Growth in comparable consignment counters sales during comparable periods	**(0.8)%**	2.1%
C. Overall		
Number of comparable retail points*	**628**	496
Average revenue per comparable retail point		
– current period *(RMB'000)*	**740.3**	885.4
– prior period *(RMB'000)*	**746.8**	840.4
Growth in comparable retail points sales during comparable periods	**(0.9)%**	5.4%

* *Comparable retail points sales refer to revenue generated from the Group's self-operated retail points existing at the end of the relevant financial period, which have been operating continuously for at least 24 months immediately prior to the end of that financial period. For example, the comparable self-operated retail points for 2018 are retail points that were open throughout 1 July 2016 to 30 June 2018. 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 periods under comparison. The Group's calculation of comparable retail points sales information may be different from those adopted by other companies, and the Group's comparable retail points sales information may not be comparable to the comparable retail points sales information reported by other companies.*

Comparable retail points sales growth of the Group's retail shops decreased from 9.5% for the six months ended 30 June 2017 to (1.0)% for the six months ended 30 June 2018, and comparable retail points sales growth of the Group's consignment counters decreased from 2.1% for the six months ended 30 June 2017 to (0.8)% for the six months ended 30 June 2018. Such decrease was a result of the slowdown of consumer spending momentum in the PRC during the six months ended 30 June 2018.

Wholesale channels

For the six months ended 30 June 2018, revenue contributed by the wholesale channels decreased by 16% from approximately HK$287.9 million for the six months period ended 30 June 2017 to approximately HK$242.4 million. Same as prior period, a majority of the revenue of wholesale channels was contributed by distributors.

Cost of Goods Sold, Gross Profit and Gross Profit Margin

Cost of goods sold increased by 22% from approximately HK$468.2 million for the six months ended 30 June 2017 to approximately HK$570.9 million for the six months ended 30 June 2018. The increase was mainly due to the increase in sales volume as well as the increase in purchase costs of some of the Group's major products in 2018. Moreover, aggressive pricing strategy was adopted by some of the major brands in the PRC and therefore higher discounts were offered for some of the Group's products, in addition to the clearance sales for Chicco products after the expiry of distribution agreement, gross profit margin of the Group decreased from 48.0% for the six months ended 30 June 2017 to 42.8% for the six months ended 30 June 2018. As a result of the foregoing, gross profit of the Group decreased from approximately HK$432.2 million for the six months ended 30 June 2017 to approximately HK$427.0 million for the six months ended 30 June 2018.

Other Income

Other income increased by approximately HK$2.5 million from approximately HK$10.3 million for the six months ended 30 June 2017 to approximately HK$12.8 million for the six months ended 30 June 2018. 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$1.5 million from a loss of approximately HK$3.7 million for the six months ended 30 June 2017 to a loss of approximately HK$5.2 million for the six months ended 30 June 2018. Other gains and losses mainly consist of net exchange loss.

Selling and Distribution Expenses

Selling and distribution expenses increased by 26% from approximately HK$334.5 million for the six months ended 30 June 2017 to approximately HK$420.0 million for the six months ended 30 June 2018, which was mainly attributable to (i) the increase in staff costs due to the increase in number of sales personnel and average salary in the PRC and outsourced personnel service costs incurred since the second half of 2017; (ii) increase in consignment expenses; and (iii) growth in rental expenses for both stores and warehouses as a result of increase in retail shops.

General and Administrative Expenses

For offices, general and administrative expenses increased by 63% from approximately HK$42.9 million for the six months ended 30 June 2017 to approximately HK$69.9 million for the six months ended 2018. The increase was mainly due to (i) the expansion of the Group's business which led to increase in staff costs and office rental expenses; and (ii) increase in non-cash share-based payment expenses of approximately HK$15.8 million regarding the share options granted in 2017.

Listing Expenses

Listing expenses represented fees to various professional parties in connection with the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10 November 2017. No listing expenses was incurred in 2018 (six months ended 30 June 2017: approximately HK$5.8 million).

(Loss) Profit Before Tax

As a result of the foregoing, the profit before tax of the Group decreased by 203% from a profit of approximately HK$55.6 million for the six months ended 30 June 2017 to a loss of approximately HK$57.5 million for the six months ended 30 June 2018.

Income Tax

The Group's income tax expense decreased from approximately HK$14.4 million for the six months ended 30 June 2017 to approximately HK$3.1 million for the six months ended 30 June 2018.

(Loss) Profit and EBITDA (Earnings before Interest Income, Income Tax, Depreciation and Amortisation)

Profit of the Group decreased by 247% from a profit of approximately HK$41.2 million for the six months ended 30 June 2017 to a loss of approximately HK$60.7 million for the six months ended 30 June 2018. Excluding the non-cash share-based payment expenses of approximately HK$15.8 million, profit for the period decreased by HK$86.1 million.

EBITDA of the Group decreased by 150% from a profit of approximately HK$71.6 million for the six months ended 30 June 2017 to a loss of approximately HK$35.5 million for the six months ended 30 June 2018.

Inventory

The inventory turnover days of the Group decreased from 200 days for the six months ended 30 June 2017 to 193 days for the six months ended 30 June 2018. The decrease in inventory turnover days was mainly due to the tighter control of inventory level.

Capital Expenditure

During the six months ended 30 June 2018, the Group invested approximately HK$26.9 million (six months ended 30 June 2017: approximately HK$14.6 million) in property, plant and equipment, primarily attributable to the increase in the number of the Group's retail shops.

Liquidity and Financial Resources

The Group's cash and bank balances as at 30 June 2018 were approximately HK$157.5 million compared to approximately HK$311.7 million as at 31 December 2017. The current ratio and quick ratio as at 30 June 2018 were 2.8 and 1.3, respectively (31 December 2017: 3.0 and 1.5, respectively).

As at 30 June 2018, the Group had aggregate banking facilities of approximately HK$110 million (31 December 2017: approximately HK$90.0 million) for bank loans and trade financing, of which approximately HK$83.3 million (31 December 2017: approximately HK$84.9 million) was unutilised as at the same date. These facilities are secured by corporate guarantees provided by the Company.

Gearing Ratio

The Group was in a net cash position as at 30 June 2018 and hence no gearing ratio is presented (31 December 2017: Nil).

Charge of Assets

As at 30 June 2018, no charges were made on the Group's assets (31 December 2017: Nil).

Contingent Liabilities

As at 30 June 2018, the Group did not have significant contingent liabilities (31 December 2017: 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 the management of the Company 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 the Group's margins and profitability.

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. As at 30 June 2018, about HK$156.7 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.

Interim Dividend

The Board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2018. On 7 June 2017, a special dividend of HK$50,000,000 was declared and approved by directors of the Company to Lovable International Holdings, the then immediate holding of the Company.

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2018.

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 period ended 30 June 2018.

Employees and Remuneration Policy

As at 30 June 2018, the Group had approximately 634 employees and 1,681 outsourced employees (30 June 2017: approximately 2,200 employees) located in the PRC and Hong Kong. Total staff costs for the six months ended 30 June 2018 amounted to approximately HK$153.9 million (six months ended 30 June 2017: approximately HK$96.1 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 30 June 2018 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 PRACTICE

During the six months ended 30 June 2018, the Company has complied with the code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules, except for the following deviation:

As to the deviation from code provision A.2.1 of the CG Code, the Board will continue review the current structure from time to time and shall make necessary changes when appropriate and inform the shareholders accordingly.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, namely Mr. Cheng Yuk Wo (as committee chairman), Mr. Huang Lester Garson and Dr. Lam Lee G. The Audit Committee has reviewed the unaudited condensed consolidated interim results for the six months ended 30 June 2018. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group with the management and discussed the internal control and financial reporting matters.

The unaudited condensed consolidated financial statements for the six months ended 30 June 2018 were prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and have been reviewed by Deloitte Touche Tohmatsu, the independent auditor of the Company, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules ("Model Code") as its own code of conduct regarding Directors' securities transactions. 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, and no incident of non-compliance with the Model Code by the Directors was noted by the Company during the six months ended 30 June 2018.

PUBLICATION OF THE RESULTS ANNOUNCEMENT AND INTERIM REPORT

The results announcement for the six months ended 30 June 2018 is published on the respective websites of the Company (www.kidslandholdings.com) and the Stock Exchange (www.hkexnews.hk). The Company's 2018 interim report will be dispatched to the shareholders of the Company and made available on the above websites in due course.

GRATITUDE

Sincere gratitude is expressed 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
凱知樂國際控股有限公司
Lee Ching Yiu
Chairman of the Board,
Chief Executive Officer
and Executive Director

Hong Kong, 27 August 2018

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