**Kiddieland International Limited**
**童園國際有限公司**
*(Incorporated in the Cayman Islands with limited liability)*
**(Stock Code: 3830)**

# ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 OCTOBER 2018

## INTERIM RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Kiddieland International Limited ("**Kiddieland**" or the "**Company**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 31 October 2018, together with the comparative unaudited figures for the corresponding period in 2017.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the six months ended 31 October 2018*

| | Note | **Six months ended 31 October 2018 *HK$'000* (unaudited)** | Six months ended 31 October 2017 *HK$'000* (unaudited) |
|---|---|---|---|
| Revenue | *5* | **203,077** | 239,721 |
| Cost of sales | *6* | **(159,717)** | (179,813) |
| **Gross profit** | | **43,360** | 59,908 |
| Other income | | **394** | 639 |
| Other gains, net | | **1,548** | 51 |
| Selling and distribution expenses | *6* | **(11,200)** | (13,441) |
| Administrative expenses | *6* | **(19,012)** | (23,121) |
| **Operating profit** | | **15,090** | 24,036 |
| Finance income | | **4** | 4 |
| Finance expenses | | **(2,558)** | (3,100) |
| **Finance costs, net** | | **(2,554)** | (3,096) |
| **Profit before taxation** | | **12,536** | 20,940 |
| Income tax expenses | *7* | **(1,519)** | (3,918) |
| **Profit for the period** | | **11,017** | 17,022 |
| **Other comprehensive (loss)/income** | | | |
| *Item that may be reclassified to profit or loss:* | | | |
| Currency translation differences | | **(6,702)** | 2,478 |
| **Total other comprehensive (loss)/income for the period, net of tax** | | **(6,702)** | 2,478 |
| **Total comprehensive income for the period** | | **4,315** | 19,500 |
| **Earnings per share for profit attributable to owners of the Company during the period (expressed in HK cents per share)** | | | |
| Basic and diluted earnings per share | *8* | **1.1** | 2.1 |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*As at 31 October 2018*

| | Note | **As at 31 October 2018** ***HK$'000*** **(unaudited)** | As at 30 April 2018 *HK$'000* (audited) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Prepaid operating lease | | **12,284** | 13,204 |
| Property, plant and equipment | | **106,633** | 107,452 |
| Intangible assets | | **20,940** | 29,343 |
| Deferred income tax assets | | **5,693** | 7,136 |
| Prepayment | | **506** | 1,064 |
| | | **146,056** | 158,199 |
| **Current assets** | | | |
| Inventories | | **103,540** | 113,533 |
| Trade and bills receivables | *9* | **78,327** | 19,276 |
| Other receivables, deposits and prepayments | | **4,012** | 2,968 |
| Income tax recoverable | | **1,590** | 3,750 |
| Cash and bank balances | | **20,022** | 43,240 |
| | | **207,491** | 182,767 |
| **Total assets** | | **353,547** | 340,966 |
| **EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY** | | | |
| Share capital | | **100,000** | 100,000 |
| Other reserves | | **6,242** | 4,922 |
| Exchange reserves | | **(4,286)** | 2,416 |
| Retained earnings | | **44,489** | 33,472 |
| **Total equity** | | **146,445** | 140,810 |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)**
*As at 31 October 2018*

| | *Note* | **As at 31 October 2018** ***HK$'000*** **(unaudited)** | As at 30 April 2018 *HK$'000* (audited) |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Bank borrowings | | **–** | 5,000 |
| Deferred income tax liabilities | | **3,935** | 4,159 |
| Other payables | | **151** | 9,593 |
| | | **4,086** | 18,752 |
| **Current liabilities** | | | |
| Bank borrowings | | **141,943** | 118,160 |
| Trade and bills payables | *10* | **18,969** | 20,078 |
| Accruals and other payables | | **39,945** | 42,137 |
| Contract liabilities | | **902** | – |
| Income tax payable | | **1,257** | 1,029 |
| | | **203,016** | 181,404 |
| **Total liabilities** | | **207,102** | 200,156 |
| **Total equity and liabilities** | | **353,547** | 340,966 |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 1 GENERAL INFORMATION OF THE GROUP

Kiddieland International Limited was incorporated in Cayman Islands on 3 June 2016 as an exempted company with limited liability. The address of its registered office is PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacturing and selling of plastic toy products (the "**Toys Business**").

The condensed consolidated interim financial information is presented in Hong Kong Dollars ("**HK$**") unless otherwise stated.

## 2 BASIS OF PREPARATION

The unaudited condensed consolidated interim financial information for the six months ended 31 October 2018 is prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34, "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the annual report for the year ended 30 April 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied are consistent with those as described in the annual report for the year ended 30 April 2018, except for adoption of new standards, amendments and interpretations of HKFRSs effective for the financial year ending 30 April 2019.

### (a) New standards, amendments and interpretations of HKFRSs adopted by the Group

New standards, amendments and interpretations of HKFRSs relevant to the Group became applicable for the current reporting period and the Group had to change its accounting policies:

| | |
|---|---|
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers |

The impact of the adoption of these above standards and the new accounting policies are disclosed in note 11.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (b) New standards, amendments and interpretations of HKFRSs have been issued but not yet effective and have not been early adopted by the Group.

| | |
|---|---|
| HKFRS 16 | Leases |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture |

None of the above new standards and amendments to existing standards is expected to have a significant effect on the consolidated financial statements of the Group, except for HKFRS 16 Leases. For details, please refer to note 2.1 of the Group's annual report for the year ended 30 April 2018.

## 4 ESTIMATES

The preparation of condensed consolidated interim financial information requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual report for the year ended 30 April 2018.

## 5 SEGMENT INFORMATION

The executive Directors of the Company have been identified as the chief operating decision-makers of the Group who review the Group's internal reporting in order to assess performance of the Group on a regular basis and allocate resources.

The Group is principally engaged in the manufacturing and selling of plastic toy products. The chief operating decision-makers assess the performance of the Toys Business based on a measure of operating results and consider the Toys Business in a single operating segment. Information reported to the chief operating decision-makers for the purposes of resources allocation and performance assessment focuses on the operation results of the Group as a whole as the Group's resources are integrated. Accordingly, the Group has identified one operating segment — manufacturing and selling of plastic toy products.

For the six months ended 31 October 2018, revenue by geographical areas is as follows:

| | **Six months ended 31 October 2018** *HK$'000* **(unaudited)** | Six months ended 31 October 2017 *HK$'000* (unaudited) |
|---|---|---|
| America | **121,157** | 140,091 |
| Europe | **68,165** | 81,401 |
| Asia Pacific and Oceania | **13,363** | 17,420 |
| Africa | **392** | 809 |
| | **203,077** | 239,721 |

The analysis of revenue by geographical segment is based on the location of customers.

## 5 SEGMENT INFORMATION (CONTINUED)

The geographical analysis of the Group's non-current assets (excluding deferred income tax assets and intangible assets) is as follows:

| | **As at 31 October 2018** ***HK$'000*** **(unaudited)** | As at 30 April 2018 *HK$'000* (audited) |
|---|---|---|
| Hong Kong | **427** | 453 |
| The PRC | **118,996** | 121,267 |
| | **119,423** | 121,720 |

For the six months ended 31 October 2018, there was one (six months ended 31 October 2017: one) customer which individually contributed over 10% of the Group's total revenue. During the period, the revenue contributed from the customer is as follows:

| | **Six months ended 31 October 2018** ***HK$'000*** **(unaudited)** | Six months ended 31 October 2017 *HK$'000* (unaudited) |
|---|---|---|
| Customer A | **50,647** | 54,093 |

## 6 EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses and administrative expenses are analysed as follows:

| | **Six months ended 31 October 2018** *HK$'000* **(unaudited)** | Six months ended 31 October 2017 *HK$'000* (unaudited) |
|---|---|---|
| Auditor's remuneration (excluding listing related services) | | |
| — Audit services | **733** | 550 |
| — Non-audit services | **383** | 300 |
| Advertising and promotion expenses | **930** | 2,046 |
| Amortisation of prepaid operating lease | **203** | 203 |
| Amortisation of intangible assets | **9,852** | 10,730 |
| Allowance for impairment of trade receivables | **484** | – |
| Bank charges | **910** | 1,067 |
| Commissions | **2,463** | 3,507 |
| Consumables | **3,916** | 4,642 |
| Cost of inventories sold | **77,057** | 86,234 |
| Custom and declaration handling expenses | **1,230** | 1,661 |
| Depreciation of property, plant and equipment | **9,049** | 9,178 |
| Other taxes and surcharges | **1,643** | 2,695 |
| Operating lease expenses | **3,044** | 3,032 |
| Product testing expenses | **496** | 1,153 |
| Repair and maintenance expenses | **1,026** | 1,609 |
| Licenses fees | **6,289** | 13,715 |
| Staff costs, including Directors' remuneration | **50,580** | 49,706 |
| Share-based payment expenses | **1,320** | – |
| Subcontracting expenses | **924** | 892 |
| Listing expenses | **–** | 6,226 |
| Logistics and warehousing expenses | **9,791** | 8,003 |
| Utilities | **6,288** | 6,555 |
| Other expenses | **1,318** | 2,671 |
| | **189,929** | 216,375 |

## 7 INCOME TAX EXPENSES

For the six months ended 31 October 2018 and 2017, Hong Kong profits tax has been provided for at the rate of 16.5% on the estimated assessable profit. The Group's subsidiaries in the PRC are subject to China enterprise income tax at a rate of 25% on estimated assessable profits. The Group's subsidiary in the U.S. is subject to U.S. corporate income tax at progressive tax rates ranged from 5% to 39% on the estimated assessable profit.

The amounts of income tax expense charged to the condensed consolidated interim statement of comprehensive income represent:

| | **Six months ended 31 October 2018** *HK$'000* **(unaudited)** | Six months ended 31 October 2017 *HK$'000* (unaudited) |
|---|---|---|
| Current income tax | | |
| — Current tax on profits for the period | **301** | 3,264 |
| Deferred income tax | **1,218** | 654 |
| Income tax expenses | **1,519** | 3,918 |

## 8 EARNINGS PER SHARE

### (a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the Company's owners by the weighted average number of ordinary shares in issue during the six months ended 31 October 2018 and 2017.

| | **Six months ended 31 October 2018 (unaudited)** | Six months ended 31 October 2017 (unaudited) |
|---|---|---|
| Profit attributable to the owners of the Company *(HK$'000)* | **11,017** | 17,022 |
| Weighted average number of ordinary shares in issue *(in thousand)* | **1,000,000** | 804,645 |
| Basic earnings per share *(HK cents)* | **1.1** | 2.1 |

### (b) Diluted earnings per share

Diluted earnings per share for the period ended 31 October 2018 is the same as basic earnings per share as the potential ordinary shares in relation to the share options granted to the employees are anti-dilutive and we do not assume any conversation and exercise. Diluted earnings per share for the period ended 31 October 2017 is the same as basic earnings per share as there were no potentially dilutive ordinary shares issued.

## 9 TRADE AND BILLS RECEIVABLES

The carrying amounts of trade and bills receivables are denominated in the following currencies:

| | **As at 31 October 2018** *HK$'000* **(unaudited)** | As at 30 April 2018 *HK$'000* (audited) |
|---|---|---|
| US$ | **78,080** | 18,583 |
| RMB | **247** | 693 |
| | **78,327** | 19,276 |

The credit periods granted to customers are ranging from 0 to 180 days. The ageing analysis of trade and bills receivables based on invoice date as at 31 October 2018 and 30 April 2018 is as follows:

| | **As at 31 October 2018** *HK$'000* **(unaudited)** | As at 30 April 2018 *HK$'000* (audited) |
|---|---|---|
| Up to 3 months | **72,581** | 17,702 |
| Over 3 months | **5,746** | 1,574 |
| | **78,327** | 19,276 |

The ageing analysis of the trade and bills receivables that are past due but not impaired is as follows:

| | **As at 31 October 2018** *HK$'000* **(unaudited)** | As at 30 April 2018 *HK$'000* (audited) |
|---|---|---|
| Past due by: | | |
| Up to 3 months | **3,332** | 1,907 |
| Over 3 months | **251** | 90 |
| | **3,583** | 1,997 |

The maximum exposure to credit risk as at 31 October 2018 was the carrying amounts of the trade and bills receivables. The Group did not hold any collateral as security. The carrying amounts of trade and bills receivables approximate their fair values.

## 10 TRADE AND BILLS PAYABLES

Trade and bills payables are denominated in the following currencies:

| | **As at 31 October 2018** *HK$'000* **(unaudited)** | As at 30 April 2018 *HK$'000* (audited) |
|---|---|---|
| US$ | **2,170** | 1,787 |
| HK$ | **12,933** | 12,313 |
| RMB | **3,866** | 5,978 |
| | **18,969** | 20,078 |

As at 31 October 2018, the ageing analysis of the trade and bills payables based on invoice date is as follows:

| | **As at 31 October 2018** *HK$'000* **(unaudited)** | As at 30 April 2018 *HK$'000* (audited) |
|---|---|---|
| Within 1 month | **2,893** | 10,435 |
| 1–2 months | **6,966** | 5,936 |
| 2–3 months | **5,920** | 957 |
| Over 3 months | **3,190** | 2,750 |
| | **18,969** | 20,078 |

## 11 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's condensed consolidated financial information and also discloses the new accounting policies that have been applied from 1 May 2018, where they are different to those applied in prior periods.

### (a) Impact on the condensed consolidated financial information

As explained in notes below, HKFRS 9 was adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules, if any, are therefore not reflected in the statement of financial position as at 30 April 2018, but are recognised in the beginning of the financial period on 1 May 2018.

## 11 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### (b) HKFRS 9 Financial Instruments — impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 May 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the condensed consolidated financial information. The new accounting policies are set out in note 11(c) below. In accordance with the transitional provisions in HKFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated.

***(i) Impairment of financial assets***

The Group has trade receivables for sales of goods that are subject to HKFRS 9's new expected credit loss model, and the Group was required to revise its impairment methodology under HKFRS 9 for these receivables.

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables from initial recognition. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The adoption of new approach did not result in material impact on the amounts reported in the beginning balances as at 1 May 2018.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, no impairment loss was identified.

### (c) HKFRS 9 Financial Instruments — summary of significant accounting policies

The following describes the Group's updated financial instruments policy to reflect the adoption of HKFRS 9:

***Investments and other financial assets***

*Classification*

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

## 11 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### (c) HKFRS 9 Financial Instruments — summary of significant accounting policies (continued)

***Investments and other financial assets (continued)***

*Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories in which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of comprehensive income.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as a separate line item in the statement of comprehensive income.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

## 11 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### (c) HKFRS 9 Financial Instruments — summary of significant accounting policies (continued)

***Investments and other financial assets (continued)***

*Impairment*

From 1 May 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

### (d) HKFRS 15 Revenue from Contracts with Customers — impact of adoption

The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) was recognised in retained earnings as at 1 May 2018 and that comparatives was not restated.

The Group is engaged in the manufacturing and selling of plastic toy products.

The Group does not incur costs to fulfill contracts which should be capitalised as they relate directly to the contracts, generate resources used in satisfying the contract and are expected to be recovered.

The Group does not have any contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. Thus, the Group does not adjust any of the transaction prices for the time value of money.

As a result, other than certain reclassification of contract liabilities, the adoption of HKFRS 15 did not result in any net impact on the profit for the period, as the timing of revenue recognition on sales of products and rental income is not changed.

## 11 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### (d) HKFRS 15 Revenue from Contracts with Customers — impact of adoption (continued)

The following adjustment was made to the amounts recognised in the consolidated statement of financial position at the date of initial application (1 May 2018):

| | **Accruals and other payables** *HK$'000* (unaudited) | **Contract liabilities** *HK$'000* (unaudited) | **Total** *HK$'000* (audited) |
|---|---|---|---|
| Closing balance as at 30 April 2018 | 51,730 | – | 51,730 |
| Reclassified other payables to contract liabilities | (1,314) | 1,314 | – |
| Opening balance as at 1 May 2018 | 50,416 | 1,314 | 51,730 |

### (e) HKFRS 15 Revenue from Contracts with Customers — summary of significant accounting policies

***Revenue recognition***

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of the Group's activities. Revenue is shown net of returns and discounts and after eliminating sales within the Group.

*(i) Sales of goods*

Sales are recognised when control of the goods has transferred, being when the goods are delivered to the customers, the customers have full discretion over the goods and there is no unfulfilled obligation that could affect the customers' acceptance of the goods. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to customers, and either customers have accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts (if any). Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

***Contract liabilities***

Cash or bank acceptance notes collected from certain customers before product delivery are recognised as contract liabilities.

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

Financial year 2019 continues to be a very challenging year for our Group and the toy industry in general. The Group's unaudited revenue for the six months ended 31 October 2018 (the "**Review Period**") was approximately HK$203.1 million, which was decreased by 15.3% as compared to the corresponding period last year (the "**Last Period**") (2017: HK$239.7 million). Profit before tax of the Group was approximately HK$12.5 million, representing a decrease of 40.2% as compared to the Last Period (2017: HK$20.9 million). The profit attributable to equity shareholders for the Review Period amounted to approximately HK$11.0 million.

## OPERATING RESULTS

### Revenue

Revenue generated from North America decreased by 13.5% to approximately HK$117.0 million in the Review Period (2017: HK$135.2 million). The decrease was mainly attributed to the cessation of sales to Toys "R" Us Inc. ("**TRU**") in U.S. which filed for Chapter 11 bankruptcy order in September 2017 and subsequently declared liquidation of its U.S. operation in March 2018.

On the other hand, revenue generated from Europe also decreased by 16.2% to approximately HK$68.2 million in the Review Period (2017: HK$81.4 million). Both average selling price and orders from various customers in European markets had decreased due to the change of their product mix. The decrease was also attributed to the decrease in sales to various subsidiaries of TRU in Europe that also filed for bankruptcy proceeding or being disposed after the Last Period.

As a result of the above, the Group's overall revenue decreased by 15.3% to approximately HK$203.1 million in the Review Period (2017: HK$239.7 million).

### Gross profit

The Group's gross profit decreased by 27.5% to approximately HK$43.4 million in the Review Period (2017: HK$59.9 million). The decrease was attributed to the decrease in revenue discussed above as well as the increase in cost of primary raw materials, labour costs and production overheads during the Review Period. The gross profit margin of the Review Period decreased to 21.4% as compared to 25.0% of the Last Period.

### Selling and distribution expenses

Selling and distribution expenses decreased by 16.4% to approximately HK$11.2 million in the Review Period (2017: HK$13.4 million). The decrease was mainly attributable to the decrease in commissions and advertising & promotion expenses which were in line with the decrease in revenue.

### Administrative expenses

Administrative expenses decreased by 17.7% to approximately HK$19.0 million in the Review Period (2017: HK$23.1 million). The decrease was attributed to the absence of listing expenses of HK$6.2 million as compared to that in the Last Period and partially offset by the non-cash share-based payment expenses of HK$1.3 million recognised regarding the employees' share options granted in the Review Period.

### Finance costs

Net finance costs decreased by 16.1% to approximately HK$2.6 million in the Review Period (2017: HK$3.1 million). The decrease was attributed to the decrease in the average bank borrowings level.

### Income tax expenses

The Group recorded income tax expenses of approximately HK$1.5 million for the Review Period, compared to approximately HK$3.9 million for the Last Period.

### Net profit

As mentioned above, due to the decrease in revenue, together with the increase in the production cost and the share-based payment expenses recognised, the profit after tax decreased by HK$6.0 million or 35.3% from approximately HK$17.0 million for the Last Period to approximately HK$11.0 million for the Review Period.

## OUTLOOK/FUTURE PROSPECTS AND STRATEGIES

Financial year 2019 continues to be a challenging year as more traditional retailers start having troubles surviving due to the emergence of internet sales. The trends of video game consoles and electronic tablets/phones gaining momentum have continued to erode the traditional toy market. Two of the Group's significant customers have recently filed for bankruptcy protection in the past few months. The closing of TRU in U.S. and other countries earlier this year has also proven to cause a long-term effect on the overall toy business globally. As expected, the loss of sales originated from the TRU group was not picked up entirely by other retailer channels and the Group's business has suffered subsequently.

While RMB's depreciation against US$ has helped manufacturers to manage their cost in a positive way, the gradual rise in both raw materials and labour costs have more than offset the currency advantage. Moreover, the strength of US$ against many other currencies, such as Euro, British Pound Sterling and Japanese Yen have caused adverse impact on the attractiveness of China-made products in those respective countries.

In addition, there are still plenty of uncertainties concerning the trade war between U.S. and China at this moment. While toys is a category that has not yet been affected by the tariffs U.S. has imposed on China imported goods, the Directors remain cautious on what President Trump's next move is going to be. U.S. has been by far the largest market and the effect of imposing any import duties may become very costly to the Group's ongoing business.

The economies especially in Europe and many other countries remain sluggish. Demand in toys is low when dispensable income and job security remain questionable. Given the market sentiments, the Directors realise that growth has to come from strong new product development and this year the Group has placed a heavy emphasis on creating more innovative toys. Aligning with new and emerging licensors remain a top priority for the Group as the management continues to evaluate and pursue new licensing opportunities. Cost cutting is equally important in today's competitive marketplace when every cost element of production is rising. Existing products are constantly being examined and reengineered to achieve lower costs. Despite all these measures, overall business is anticipated to remain stagnant in the near term but the Directors are confident that the business environment is going to improve in the longer term.

Next year in 2019 there will be two new movie releases by Disney that will have an impact on the Group's sales. They are Toy Story 4 and Frozen 2, both of which have enjoyed a long history of strong performance, and their franchises have done satisfactorily in the Group's primary category in the past. The Directors are excited about the opportunities and they anticipate that the launch of these two new movies will bring substantial sales to the Group in financial year 2020.

## OTHER INFORMATION

### Purchase, Sale or Redemption of Listed Securities

During the six months ended 31 October 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

### Interim Dividend

The Board has resolved not to declare any interim dividend for the six months ended 31 October 2018. On 15 September 2017, a special interim dividend of HK$100,000,000 was declared and approved by the Board before the listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") and HK$98,593,000 was net-off with the amounts due from the shareholders and related entities.

### Corporate Governance Code

Throughout the six months ended 31 October 2018, the Company had complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "**Listing Rules**").

### Code for Dealing in Company's Securities by Directors

The Company has adopted 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 all Directors, the Directors confirmed that they have complied with the required standard as set out in the Model Code throughout the six months ended 31 October 2018.

## Audit Committee

The Audit Committee of the Company has reviewed with the management the interim results for the six months ended 31 October 2018, the accounting principles and practices adopted by the Group and discussed auditing, internal controls, risk management and financial reporting matters including a review of the unaudited interim financial information.

## Publication of Interim Results Announcement and Interim Report

This announcement is published on the website of the Hong Kong Stock Exchange at (www.hkexnews.hk) and that of the Company at (www.kiddieland.com.hk). The interim report of the Company for the six months ended 31 October 2018 will be despatched to the shareholders of the Company and made available on the website of the Hong Kong Stock Exchange and that of the Company in due course.

## Appreciation

On behalf of the Board, I would like to take this opportunity to thank all our shareholders, business partners, customers, suppliers, bankers, the management and staff for their support and contribution to the Group and its business throughout the period.

By Order of the Board
**Kiddieland International Limited**
**Lo Hung**
*Chairman*

Hong Kong, 14 December 2018

*As at the date of this announcement, the Board comprises Mr. LO Shiu Kee Kenneth, Ms. LO Shiu Shan Suzanne, Ms. SIN LO Siu Wai Sylvia, Mr. LO Hung and Ms. LEUNG Siu Lin Esther as the Executive Directors and Ms. TSE Yuen Shan, Mr. MAN Ka Ho Donald and Mr. CHENG Dominic as the Independent Non-executive Directors.*