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 2018

HIGHLIGHTS OF 2018 ANNUAL RESULTS

- The Group has recorded a 5.0% increase in revenue from approximately HK$1,862.2 million to approximately HK$1,954.4 million compared with prior year.
  - Revenue of toy products rose 7.3% to approximately HK$1,856.1 million in 2018.
  - Revenue from retail shops rose 25.1% to approximately HK$732.0 million in 2018.
  - Revenue from direct e-commerce (online stores and online key accounts) rose 25.3% to HK$185.3 million representing 9.5% of total revenue in 2018, compared to 7.9% in prior year.
- Gross profit for the year was approximately HK$849.7 million, with gross profit margin decreasing from 46.5% to 43.5%.
- Adjusted EBITDA loss (Earnings before interest income, finance costs, income tax, depreciation, and amortisation, adjusted for share-based compensation and net exchange loss) for the year was HK$4.5 million. Adjusted EBITDA loss for the six months ended June 30, 2018 was HK$15.3 million.
- Loss for the year was approximately HK$100.1 million. Loss for the six months ended June 30, 2018 was approximately HK$60.7 million.

CHAIRMAN'S STATEMENT

In 2018, we suffered a full-year accounting loss of approximately HK$100.1 million, the first in our corporate history. This was caused by the confluence of a multitude of factors.

The weakened PRC economy, escalating global trade tensions set a weak macro backdrop. Global toy markets only grew by approximately 2% in 2018 while the PRC toy market saw a flat year. In spite of this backdrop, we continued to grow our top-line, increasing it by 5.0% and toy segmental revenue by 7.3% in 2018. Our distribution network remained robust as revenue from retail shops rose by 25.1%. Direct e-commerce sales (online shops and online key accounts combined) grew 25.3% year-on-year, contributing to 9.5% of total sales in 2018, as compared to 7.9% in 2017.

However, we must not be made complacent by the relatively healthy top-line growth. The weakening economic fundamentals in the PRC make our customers more price-sensitive. Some of our peers, comprising both online and offline sellers, adopted aggressive pricing strategies, leading to significant pressure on selling prices and compression in gross margin by three percentage points in 2018. We have been optimising our product and brand mix to enhance gross profit margin on a portfolio basis. More marketing efforts, particularly the content-based ones such as short videos, those involving Key Opinion Leaders (KOLs), leverage the latest trends in the PRC and have been adopted to improve price and margin. We have already witnessed results: for the six months ended 30 June 2018, our gross margin was 42.8%, and for the year ended 31 December 2018, it had improved to 43.5%.

Total selling, distribution, general and administrative expenses amounted to HK$956.9 million in 2018, representing a 22.9% increase (from approximately HK$778.3 million in 2017). This increase resulted mainly from an increase of staff related costs (including social benefits) by HK$97.9 million and an increase of rental and concessionary expenses by HK$44.4 million. To manage these expenses, we ought to continue to optimise our network of retail shops and consignment counters. We also strive to run this network and our vast sales force more efficiently and effectively. During 2018, 28 retail shops and 72 consignment counters were closed. Meanwhile, we selectively added, right-sized, and relocated our retail shops and counters. In addition to our Kidsland and Babyland stores and counters, we added eight LEGO Certified Stores ("**LCSs**") in the PRC and Hong Kong in 2018. Notably, some of our LCSs are among the most sales-productive LCSs in the world. Overall, we maintained a stable retail network at a similar scale but strived to improve its composition and profitability. Finally, the PRC government recently announced policies to reduce taxes (e.g. VAT) and fees in the near future, which we believe would help our cost management further.

Non-cash selling, distribution, and general and administrative expenses in 2018 also depressed profitability. For example, we recorded HK$28.8 million of non-cash share-based payment in 2018 and only HK$3.7 million in 2017. The considerably weakened RMB led to a HK$15.1 million net exchange loss, a far cry from the HK$1.0 million recorded in 2017. Adjusting for these two items, our adjusted EBITDA (earnings before interest income, finance costs, income tax, depreciation, amortisation, share-based compensation. Adjusted EBITDA and net exchange loss) for the year ended 31 December 2018 was negative HK$4.5 million; for the six months ended 30 June 2018 was negative HK$15.3 million.

Apart from the aforementioned short-term measures that we are deploying, the longer-term future is encouraging to us. Kidsland has been a leader in the ever-competitive toy marketplace in the PRC for many years. We have a strong backbone comprising our team, industry-leading distribution network (online and offline), and distinct corporate culture. We have steadfast determination to continue to evolve and grow from strength to strength.

There are a few things that we need to excel at.

First and foremost, we need to become a consumer-centric business. This generation's young parents differing from the past generations' less affluent parents, are asking for more and requiring for their children products that stand out – products that are fun, trendy, collectible, exclusive, educational, and even beyond. We ought to build a unique and strong brand that appeals to these needs. To achieve this, we have embarked on a few projects to refresh our strategy, reimagine our brands, and revitalise our shops to faithfully and humbly embrace the future. All this goes hand-in-hand with an ongoing focus on ensuring that our shops and counters provide great customer experience and strong engagement, integrating online and offline seamlessly.

Under this consumer-centric approach, product diversity has to be broadened to satisfy a more fragmented market due to more individualised styles and personalities. We are working to introduce meticulously selected and world-leading brands and products – particularly innovative, trendy and collectible toys, and lifestyle baby products, to complement and strengthen our product suite.

As part of the above-mentioned strategy, we plan to open the FAO Schwarz Beijing Flagship before 30 June 2019. FAO Schwarz, established in 1862 in New York City, is an iconic and high-end toy retail franchise offering highly curated products. It is well known for offering experiential and theatrical shopping experience to customers all around the world. Kidsland is the exclusive operating partner of FAO Schwarz in the PRC. The size of our Beijing flagship, when it opens, will add approximately 7% to the aggregate operating area of our retail shop network. With high-end positioning and unique shopping experience on offer, we anticipate its productivity to be higher than that of our other retail shops. We have plans to open more FAO Schwarz shops across the PRC over the next few years.

In addition to our efforts in becoming more customer-centric, we cannot emphasise enough about the paramount importance of technology and the Group's online presence. We have one of the largest and arguably best-in-class e-commerce operations. We have a team of over 60 people. During 2018, we opened 11 new online shops, as at 31 December 2018, we operate four Kidsland flagship stores across major e-commerce platforms in the PRC and 18 flagship online stores operated on behalf of many of the brands that we represent in the PRC. We operate the highest number of flagship stores on Tmall in the imported toys category. Ranking amongst the top in this category, our collective revenue from all online stores on Tmall amounted to HK$83.9 million in 2018. We are investing to deepen our e-commerce leadership and expect growth to take off in the near future.

We are also accelerating to digitise our operations and enhance productivity for the sales team and the organisation as a whole. The resulting technology and Big Data do not only aid decision-making but also directly improve sales productivity by identifying, communicating, and transacting with our customers. Learning from the experience of many successful start-up technology companies, we aim to stay agile and nimble in our technological development path. We will invest and deploy resources in a smart way and not overextend. We focus on taking small steps and delivering tangible results.

Last but not least, in the face of multifold challenges, we ought to be particularly cautious in maintaining our liquidity and balance sheet strength. As of 31 December 2018, we maintained zero bank borrowing similar to what we had done since the inception of our business. We are committed to managing our balance sheet prudently.

During 2018, we hired new members to the management team. We are investing and strengthening our leadership bench. We are grooming the new generation to gain the necessary experience and exposure to take the company to the next level. We are organising strategy workshops for us to develop and articulate a long-term vision to embrace the bright and exciting future.

In my view, the adversities we faced in 2018 actually strengthened our focus, honed our strategies, and shall serve as a proof of the Group's resiliency when we look back in the future.

Lee Ching Yiu
Chairman

Hong Kong, 29 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

2018 proved to be an extremely challenging year for the Group business. A confluence of factors – the weakening economic environment in the PRC, the US-China trade tensions, price competition in the marketplace, and rising operating costs – all played a role in the Group's HK$100.1 million net loss in 2018.

Despite the challenging environment, the Group managed to grow revenue by about 5.0% from approximately HK$1,862.2 million to approximately HK$1,954.4 million. Revenue from our retail shops rose 25.1% to approximately HK$732.0 million in 2018. Revenue of toy products rose 7.3% in 2018 to approximately HK$1,856.1 million. These showed that the fundamental top-line growth momentum remained intact.

However, a three-percentage-point contraction in gross profit margin caused the total gross profit to drop 1.9% or approximately HK$16.8 million in 2018, compared to 2017. There was a significant increase in aggregate selling, distribution, and general and administrative expenses by 22.9% or approximately HK$178.6 million from 2017 to 2018. Share-based payments (to directors as well as other staff) and net exchange loss in 2018 totalled approximately HK$43.9 million, or a rise of approximately HK$39.2 million compared to 2017.

MAJOR DEVELOPMENTS IN RETAIL AND WHOLESALE BUSINESS

Our extensive distribution network comprises self-operated retail channels and wholesale channels. As of 31 December 2018, this network comprises:

Self-operated Retail Channels

– 776 self-operated retail points of sale, consisting of retail shops and consignment counters (31 December 2017: 780);

– 22 online stores (31 December 2017: 14)

Wholesale Channels

– 931 distributors (31 December 2017: 962), who onsell our products through third party retailers or at their own retail shops, the number of which amounts to over 3,000 (31 December 2017: over 2,900)

– 16 hypermarket and supermarket chains (31 December 2017: 14)

– 7 online key accounts (31 December 2017: 13)

Self-operated Retail Channels

Retail Shops

Our retail shops include both single-brand shops (i.e. LEGO Certified Store) and multi-brand shops that sell toys as well as baby toys (i.e. Kidsland) and multi-brand shops that sell baby toys and products for infants (i.e. Babyland) of various brands.

During 1 January 2018 to 31 December 2018 (the "**Reporting Period**"), we opened seven LEGO Certified Stores in Mainland China and one in Hong Kong, while we continued to optimise our network of Kidsland and Babyland stores.

Changes in the number of retail shops for the years indicated are shown below:

	2018	2017
Retail shops		
At the beginning of the year	**245**	217
Addition of new retail shops	**40**	51
Closing of retail shops	**(28)**	(23)
At the end of the year	**257**	245

Consignment counters

Most of our consignment counters had been located at renowned department stores and a renowned global toy store chain, and operated under the brand names of Kidsland and Babyland. During 2018, we continued to open new counters only at strategically selected well-known department stores. At the same time, we terminated loss-making consignment counters.

Changes in the number of consignment counters for years indicated are shown below:

	2018	2017
Consignment counters		
At the beginning of the year	**535**	524
Addition of new consignment counters	**56**	86
Closing of consignment counters	**(72)**	(75)
At the end of the year	**519**	535

Online stores

During 2018, the Group launched 11 flagship stores of brands that we represent on third-party-operated online platforms such as Tmall, JD.com, Xiaohongshu, and Kaola. As of 31 December 2018, we had 22 online stores in total, compared with 14 in total in 31 December 2017.

Wholesale Channels

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

Distributors

Selling to distributors reduces logistics and warehousing costs, improve working capital position, and expands our network into promising markets that were untapped by our retail points.

As of 31 December 2018, we had 931 distributors, who onsell our products at retail shops, which totaled to more than 3000 in the PRC, or through third party retailers. By leveraging our distributors' geographical base, retail point locations, distribution network, business strategies, financial resources, and expertise, 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:

	2018	2017
Distributors		
At the beginning of the year	**962**	805
Addition of new distributors	**282**	374
Expiry without renewal of agreements with distributors	**(313)**	(217)
At the end of the year	**931**	962

Hypermarket and Supermarket Chains

Hypermarkets and supermarkets are generally divided into upscale supermarkets, community supermarkets, convenience stores, and shopping clubs with membership schemes. Partnerships with such store chains drive sales by enabling our products to reach wider audiences across the PRC.

We selected hypermarket and supermarket chains based on market position, retail network, logistics capability, financial health, and compatibility with the Group's business strategies and prefer these chains to have electronic reporting systems that allow us to reconciliate real-time sales records.

As of 31 December 2018, we had wholesale arrangements with 16 hypermarket and supermarket chains with a sum of 689 retails points in Tier 1, 2 and 3 cities (based on 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:

	2018	2017
Hypermarket and supermarket chains		
At the beginning of the year	**14**	12
Addition of new hypermarket and supermarket chains	**2**	3
Termination or expiry of agreements with hypermarket and supermarket chains	**–**	(1)
At the end of the year	**16**	14

Online Key Accounts

The internet has become one of the main distribution channels in the PRC. To access this market segment, we have sold through such platforms as JD.com, Amazon.cn, and Dangdang, which were selected based on reputation, financial condition, and market share. During 2018, the number of our online key accounts is consolidated to be 7.

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

	2018	2017
Online key accounts		
At the beginning of the year	**13**	14
Addition of new online key accounts	**2**	5
Termination or expiry of agreements with online key accounts	**(8)**	(6)
At the end of the year	**7**	13

FINANCIAL REVIEW

REVENUE

For 2018, the revenue of the Group increased by 5.0% from approximately HK$1,862.2 million for 2017 to approximately HK$1,954.4 million.

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

	2018	2017
	HK$'000	*HK$'000*
Self-operated retail channels		
– Retail shops	**731,990**	585,203
– Consignment counters	**615,544**	580,465
– Online stores	**99,176**	90,271
Sub-total:	**1,446,710**	1,255,939
Wholesale channels		
– Distributors	**382,002**	499,916
– Hypermarkets and supermarket chains	**39,550**	48,706
– Online key accounts	**86,147**	57,615
Sub-total:	**507,699**	606,237
Total:	**1,954,409**	1,862,176

Self-operated Retail Channels

The self-operated retail channels saw revenue grow 15.2% to HK$1,446.7 million in 2018. It is mainly driven by a strong growth of 25.1% from our retail shops, reaching revenue of approximately HK$732.0 million in 2018. Revenue from consignment counters and online stores grew 6.0% and 9.9% respectively in 2018, to approximately HK$615.5 million and approximately HK$99.2 million, respectively.

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

	2018	2017
	HK$'000	*HK$'000*
Multi-brand retail shops		
– Kidsland stores / Babyland stores	**476,606**	429,600
– Others	**19,976**	–
Sub-total	**496,582**	429,600
Single-brand retail shops		
– LEGO Certified Store	**235,408**	151,900
– Others	**–**	3,703
Sub-total	**235,408**	155,603
Total	**731,990**	585,203

In our retail shop network, the growth was mainly driven by the rapid growth in sales from LEGO Certified Stores of 55.0% to HK$235.4 million in 2018. Our Kidsland and Babyland stores also grew their aggregate revenue by 10.9% to HK$476.6 million. However, this has offset by the loss of distribution contract with Chicco. All Chicco stores were closed in 2018.

Wholesale Channels

For 2018, the revenue contributed by wholesale channels decreased by 16.3% from approximately HK$606.2 million for 2017 to approximately HK$507.7 million.

However, our online key accounts recorded sales growth of approximately HK$28.5 million, representing a 49.5% increase from the prior year. Combining revenue from online key accounts and online stores, our total revenue through direct e-commerce totaled approximately HK$185.3 million, or 9.5% of our total revenue in 2018 (2017: 7.9%).

Sales of toy products rose 7.3% to approximately HK$1,856.1 million in 2018. Sales of infant products declined 26.1% to approximately HK$98.4 million mainly due to clearance sales for Chicco products after our distribution agreement expired.

During 2018, sales of toy products accounted for 95.0% (2017: 92.9%) of our revenue and sales of infant products for 5.0% (2017: 7.1%).

Cost of Sales, Gross Profit and Gross Profit Margin

Cost of sales increased by 10.9% from approximately HK$995.7 million in 2017 to approximately HK$1,104.7 million in 2018. The increase was mainly due to an increase in sales volume and purchase costs of some of the Group's major products. Moreover, some of the major players in the PRC adopted aggressive pricing strategies and therefore higher discounts were offered for some of the Group's products. This, in addition to the expiration of the distribution agreement with Chicco, contributed to decreasing the Group's gross profit margin from 46.5% in 2017 to 43.5% in 2018. As a result, gross profit decreased from approximately HK$866.5 million for 2017 to approximately HK$849.7 million for 2018.

Other Income

Other income, consisting mainly of government grants and promotion income from brand owners, decreased by approximately HK$2.5 million from approximately HK$25.9 million in 2017 to approximately HK$23.4 million in 2018.

Other Gains and Losses

Other losses increased by approximately HK$13.9 million from a loss of approximately HK$0.1 million for 2017 to a loss of approximately HK$14.0 million for 2018. The increase in other losses was mainly due to an increase in exchange loss from approximately HK$1.0 million for 2017 to approximately HK$15.1 million for 2018. The exchange loss was mainly due to the weakening of Reminbi during the year.

Selling and Distribution Expenses

Selling and distribution expenses increased by 20.0% from approximately HK$688.5 million for 2017 to approximately HK$826.3 million mainly due to (i) increase in overall wages and social benefits of Mainland workers especially in Tier 1 and Tier 2 cities; (ii) increase in rental expenses of stores at prime locations; and (iii) advertising and promotion expenses for new products and new distribution channels including but not limited to new online flagship stores.

General and Administrative Expenses

General and administrative expenses increased by 45.4% from approximately HK$89.8 million in 2017 to approximately HK$130.6 million in 2018. They represent mainly salaries, other benefits and retirement benefit scheme contributions, rental, building management, and office expenses. The increase was manly due to increase of share based payment, increase of staff costs and increase of legal and professional fees.

Listing Expenses

Listing expenses represented fees to various professional parties in connection with the listing of shares of the Company (the "**Shares**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 10 November 2017. No listing expenses were incurred in 2018 (2017: approximately HK$19.9 million).

Finance Costs

No finance costs were incurred in 2018. For 2017, the Group's finance costs represented interest expenses arising from the bank loan drawn in 2017.

Loss / Profit Before Tax

As a result of the foregoing, the Group's profit before tax dropped from approximately HK$93.5 million in 2017 to a loss before tax of approximately HK$94.1 million in 2018.

Income Tax

The Group's income tax expenses decreased from approximately HK$28.1 million in 2017 to approximately HK$6.1 million in 2018.

Loss for the Year

A loss of approximately HK$100.1 million was recorded for 2018 (2017: HK$65.4 million profit).

Adjusted EBITDA loss (earnings before Interest Income, Finance Costs, Income Tax, Depreciation, Amortisation, adjusted for share based payment and net exchange loss) for the Year

Adjusted EBITDA was HK$130.6 million for 2017 and declined to an adjusted EBITDA loss of HK$4.5 million for 2018.

Adjusted EBITDA loss for six months ended 30 June 2018 was HK$15.3 million.

Trade Receivables and Payables

As at 2018, turnover days of trade receivables increased 1.2 days to 33.8 days as compared to 31 December 2017. Trade payables turnover days decreased 8.2 days to 94.1 days as compared to 2017.

Inventory Turnover

The inventory turnover days of the Group decreased from 206.0 days in 2017 to 203.6 days in 2018.

Cash Conversion Cycle

The cash conversion cycle is a metric that shows the amount of time it takes a company to convert its investment in inventory to cash, which equals to inventory turnover (days) plus accounts receivable turnover (days) minus accounts payable turnover (days).

The cash conversion cycle increased from 136.3 days in 2017 to 143.3 days in 2018.

Capital Expenditure

During the year, the Group invested approximately HK$58.7 million (2017: approximately HK$40.3 million) in property, plant and equipment mainly to renovate existing shops and set up new shops.

Liquidity and Financial Resources

The Group's cash and bank balances as at 31 December 2018 were approximately HK$128.1 million compared to approximately HK$311.7 million as at 31 December 2017. The current ratio and quick ratio as at 31 December 2018 were 2.9 and 1.2 respectively (31 December 2017: 3.0 and 1.5 respectively).

As at 31 December 2018, the Group had aggregate banking facilities of approximately HK$125.6 million (31 December 2017: approximately HK$90.0 million) for bank loans and trade financing, of which approximately HK$98.8 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.

Charge of Assets

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

Contingent Liabilities

As at 31 December 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 Dollar. Although our 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.

RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Kidsland International Holdings Limited ("**Kidsland**" or the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2018, prepared on the basis set out in Note 2 below, together with the comparative figures for the year ended 31 December 2017, as follows.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	**2018** *HK$'000*	2017 *HK$'000*
Revenue	*4*	**1,954,409**	1,862,176
Cost of goods sold		**(1,104,679)**	(995,692)
Gross profit		**849,730**	866,484
Other income	*5*	**23,376**	25,939
Other gains and losses	*6*	**(14,007)**	(111)
Selling and distribution expenses		**(826,316)**	(688,491)
General and administrative expenses		**(130,577)**	(89,814)
Net impairment loss reversed (recognised) on financial assets		**3,704**	(347)
Listing expenses		**–**	(19,908)
Finance costs	*7*	**–**	(255)
(Loss) profit before tax		**(94,090)**	93,497
Income tax expense	*8*	**(6,059)**	(28,131)
(Loss) profit for the year	*9*	**(100,149)**	65,366
Other comprehensive (expense) income			
Item that will not be reclassified to profit or loss			
Exchange differences arising from translation of functional currency to presentation currency		**(24,552)**	38,477
Item that may be reclassified subsequently to profit or loss			
Exchange differences arising from translation of foreign operations		**4,655**	(4,905)
Other comprehensive (expense) income for the year, net of income tax		**(19,897)**	33,572
Total comprehensive (expense) income for the year		**(120,046)**	98,938

	Note	2018 HK$'000	2017 HK$'000
(Loss) profit for the year attributable to:			
Owners of the Company		**(97,568)**	59,352
Non-controlling interest		**(2,581)**	6,014
		(100,149)	65,366
Total comprehensive (expenses) income for the year attributable to:			
Owners of the Company		**(116,637)**	92,772
Non-controlling interest		**(3,409)**	6,166
		(120,046)	98,938
Basic (loss) earnings per share	*11*	**HK(12.2) cents**	HK9.4 cents
Diluted (loss) earnings per share		**HK(12.2) cents**	HK9.4 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**70,383**	59,274
Intangible assets		**11,612**	–
Deposit paid for acquisition of property, plant and equipment		**229**	–
Rental deposits		**31,245**	24,919
Deferred tax assets		**9,978**	9,767
		123,447	93,960
Current assets			
Inventories		**614,811**	617,690
Trade receivables	*12*	**170,760**	191,584
Other receivables, deposits and prepayments		**120,758**	124,070
Financial assets at fair value through profit or loss ("**FVTPL**")		**18,795**	–
Tax recoverable		**944**	–
Bank balances and cash		**128,106**	311,672
		1,054,174	1,245,016
LIABILITIES			
Current liabilities			
Trade payables	*13*	**266,224**	303,115
Other payables and accruals		**76,099**	101,121
Contract liabilities		**17,655**	–
Amounts due to related companies		**2,031**	38
Current tax liabilities		**6,775**	7,237
		368,784	411,511
Net current assets		**685,390**	833,505
Total assets less current liabilities		**808,837**	927,465
Non-current liability			
Provision for reinstatement costs		**9,314**	12,070
		9,314	12,070
Net assets		**799,523**	915,395

	2018	2017
	HK$'000	*HK$'000*
EQUITY		
Owners of the Company		
Share capital	**8,000**	8,000
Reserves	**781,881**	894,344
	789,881	902,344
Non-controlling interest	**9,642**	13,051
Total equity	**799,523**	915,395

NOTES:

1. CORPORATE INFORMATION

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

The addresses of the registered office and the principal place of business of the Company are disclosed in the Corporate Information section of the annual report.

The Company is an investment holding company. The Company and its subsidiaries (the "**Group**") are principally engaged in trading and sale of toys and infant products.

The functional currency of the Company is Renminbi ("**RMB**") while the consolidated financial statements are presented in Hong Kong Dollar ("**HK$**"), which the management of the Group considers that it is more beneficial for the users of the consolidated financial statements.

2. BASIS OF PREPARATION AND PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated 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 ended 31 December 2017, 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, consolidated statements of changes in equity and consolidated statement of cash flows which include the financial performance and cash flows of the companies now comprising the Group for the year ended 31 December 2017 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 year ended 31 December 2017, or since the respective date of establishment/incorporation of the relevant entity where this is a shorter period.

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time in the current year:

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

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3.1 HKFRS 15 Revenue from Contracts with Customers

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

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and the related interpretations.

The Group recognises revenue from the following major sources:

- Retail of toys and infant products through self-operated retail network comprising stand-alone retail shops, consignment counters in department stores and online stores; and

- Wholesale of toys and infant products to distributors, hypermarket and supermarket chains and online key accounts.

Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the 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**
		Note (i)	
	HK$'000	*HK$'000*	*HK$'000*
Other payables and accruals	101,121	(23,841)	77,280
Contract liabilities	–	23,841	23,841

Note:

(i) As at 1 January 2018, deposits received from customers of HK$22,741,000 and deferred income from loyalty programme of HK$1,100,000 previously included in other payables and accruals were reclassified to contract liabilities since the underlying products are yet to be delivered.

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	Note	**As reported**	**Adjustments**	**Amounts without application of HKFRS 15**
		HK$'000	*HK$'000*	*HK$'000*
Current liabilities				
Other payables and accruals		76,099	17,655	93,754
Contract liabilities	*a*	17,655	(17,655)	–

Impact on the consolidated statement of cash flows

	Note	**As reported**	**Adjustments**	**Amounts without application of HKFRS 15**
		HK$'000	*HK$'000*	*HK$'000*
OPERATING ACTIVITIES				
Increase (decrease) in other payables and accruals		19,254	(5,282)	13,972
Decrease in contract liabilities	*a*	(5,282)	5,282	–

Note:

(a) Without the application of HKFRS 15, deposits received from customers HK$16,317,000 would have been reclassified from contract liabilities to other payables and accruals since the underlying products are yet to be delivered.

3.2 HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 *Financial Instruments* 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 under ECL model) 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. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Note	**Trade receivables** *HK$'000*	**Deferred tax assets** *HK$'000*	**Retained earnings** *HK$'000*
Closing balance at 31 December 2017 – HKAS 39		191,584	9,767	455,564
Effect arising from initial application of HKFRS 9:				
Remeasurement				
Impairment under ECL model	*(a)*	(9,051)	2,263	(6,788)
Opening balance at 1 January 2018		182,533	12,030	448,776

Note:

(a) Impairment under ECL model

The Group has applied HKFRS 9 simplified approach to measure expected credit loss using a lifetime expected credit loss for trade receivables. To measure the expected credit loss, trade receivables have been grouped using a provision matrix based on past due status.

Loss allowance for other financial assets at amortised cost, mainly comprising deposits and other receivables and bank balances, are measured on 12-month expected credit loss basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, additional credit loss allowance of HK$9,051,000 and deferred tax assets of HK$2,263,000 have been recognised against retained earnings. The additional loss allowance is charged against the trade receivables.

All loss allowances for trade receivables as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follows:

	Loss allowance *HK'000*
Reconciliation:	
At 31 December 2017	
– HKAS 39	2,457
Amounts remeasured through opening retained earnings	9,051
At 1 January 2018	11,508

3.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (Audited)	**HKFRS 15**	**HKFRS 9**	**1 January 2018 (Restated)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deferred tax assets	9,767	–	2,263	12,030
Trade receivable	191,584	–	(9,051)	182,533
Other payables and accruals	101,121	(23,841)	–	77,280
Contract liabilities	–	23,841	–	23,841
Reserves	894,344	–	(6,788)	887,556

New and amendments to HKFRS in issue but not yet effective

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

4. REVENUE AND SEGMENT INFORMATION

Revenue for sales of toys and infant products is from contracts with customers and recognised at a point in time when the customer obtains control of the goods.

Revenue is recognised when control of the goods has been transferred, being when the goods have been delivered to the customer specific location or being directly obtained by customers at retail points. Following delivery, the customer has full discretion over the manner of usage and consumption the goods, has the primary responsibility when on selling the goods and bears the risk of obsolescence and loss in relation to the goods.

Revenue is recognised for sales which are considered highly probable that a significant reversal in the cumulative revenue recognised will not occur.

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 toys; 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 2018

	Sales of toys	**Sales of infant products**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Revenue	**1,856,057**	**98,352**	**1,954,409**
Segment gross profit	**811,834**	**37,896**	**849,730**
Segment profit	**786,822**	**40,527**	**827,349**
Unallocated income			**7,414**
Unallocated expenses			**(918,550)**
Unallocated other gains and losses			**(10,303)**
Loss before tax			**(94,090)**

For the year ended 31 December 2017

	Sales of toys	Sales of infant products	Total
	HK$'000	*HK$'000*	*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

Segment profit represents the (loss) profit before tax (incurred) earned by each segment without allocation of certain 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 2018

	Sales of toys	**Sales of infant products**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Segment assets	**526,436**	**88,375**	**614,811**
Unallocated assets			**562,810**
Consolidated total assets			**1,177,621**
Segment liabilities	**252,569**	**13,655**	**266,224**
Unallocated liabilities			**111,874**
Consolidated total liabilities			**378,098**

As at 31 December 2017

	Sales of toys	Sales of infant products	Total
	HK$'000	*HK$'000*	*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

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, and

- only trade payables are allocated to operating segments. Other liabilities for which reportable segments are jointly liable are classified as unallocated liabilities.

Sales and distribution channels

The Group has a diverse retail network and an extensive distribution network. The Group sells toy and infant products through (i) self-operated retail channels; and (ii) wholesale channels.

The following table sets forth a breakdown of revenue by the self-operated retail and wholesale channels for the periods indicated:

For the year ended 31 December	**2018**	2017
	HK$'000	*HK$'000*
Self-operated retail channels		
– Retail shops	**731,990**	585,203
– Consignment counters	**615,544**	580,465
– Online stores	**99,176**	90,271
	1,446,710	1,255,939
Wholesale channels		
– Online/offline wholesale		
– Distributors	**382,002**	499,916
– Hypermarket and supermarket chains	**39,550**	48,706
– Online key accounts	**86,147**	57,615
	507,699	606,237
Total	**1,954,409**	1,862,176

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***	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC	**1,803,805**	1,768,212	**55,136**	45,000
Hong Kong	**150,604**	93,964	**27,088**	14,274
	1,954,409	1,862,176	**82,224**	59,274

* 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

	2018	2017
	HK$'000	*HK$'000*
Interest income	**708**	446
Promotion income from brand owners	**15,962**	19,106
Government grants *(note)*	**4,619**	4,617
Sundry income	**2,087**	1,770
	23,376	25,939

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

6. OTHER GAINS AND LOSSES

	2018	2017
	HK$'000	*HK$'000*
Net exchange loss	**(15,107)**	(1,028)
Net loss on disposal of property, plant and equipment	**(7)**	(11)
Reversal of provision of reinstatement costs	**2,210**	1,228
Others	**(1,103)**	(300)
	(14,007)	(111)

7. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest on bank loans	**–**	255

8. INCOME TAX EXPENSE

	2018	2017
	HK$'000	*HK$'000*
Current tax charge		
Hong Kong Profits Tax	**2,200**	707
PRC withholding taxes	**–**	3,146
PRC Enterprise Income Tax	**2,359**	23,109
	4,559	26,962
Overprovision in prior years		
Hong Kong Profits Tax	**(71)**	(343)
Deferred tax		
Current year charge	**1,571**	1,512
	6,059	28,131

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years

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

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.

9. (LOSS) PROFIT FOR THE YEAR

	2018	2017
	HK$'000	*HK$'000*
(Loss) profit for the year is arrived at after charging (crediting):		
Directors' remuneration	**16,839**	5,899
Other staff costs	**110,987**	127,970
Retirement benefit schemes contributions for other staff	**25,909**	30,781
Share-based payments for other staff	**21,385**	2,650
Total staff costs	**175,120**	167,300
Auditor's remuneration	**2,330**	2,380
Reversals of allowance for inventories, net (included in cost of sales)	**(2,115)**	(8,270)
Reversal of provision for social insurance and housing provident fund	**(22,111)**	–
Depreciation of property, plant and equipment	**46,411**	32,846
Operating lease rentals in respect of		
– rented premises of warehouse (included in selling and distribution expenses)	**24,554**	19,543
– rented premises of office (included in general and administrative expenses)	**16,324**	13,170
– retail shops (included in selling and distribution expenses) *(note i)*	**143,254**	119,691
– consignment counters (included in selling and distribution expenses) *(note i)*	**4,760**	5,757
	188,892	158,161

Notes:

(i) The amounts include contingent rents of HK$27,053,000 (2017: HK$27,743,000).

(ii) For the years ended 31 December 2018 and 2017, cost of inventories recognised as an expense represents cost of goods sold as shown in the consolidated statement of profit or loss and other comprehensive income.

10. DIVIDENDS

	2018 HK$'000	2017 HK$'000
Dividends recognised and paid as distribution during the year:		
Special dividend to Lovable International Holdings	–	50,000
2017 Final dividend – HK2.23 cents per share	17,840	–
	17,840	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.

No dividend was proposed by the directors of the Company during 2018, nor has any dividend been proposed since the end of the reporting period.

11. (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:

	2018 HK$'000	2017 HK$'000
(Loss) earnings		
(Loss) earnings attributable to the owners of the Company for the purpose of calculation of basic (loss) earnings per share	(97,568)	59,352
(Loss) earnings attributable to the owners of the Company for the purpose of calculation of diluted (loss) earnings per share	(97,568)	59,352

	2018 '000	2017 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculation of basic (loss) earnings per share	800,000	628,493
Effect of diluted potential ordinary shares in respect of outstanding share options	–	265
Weighted average number of ordinary shares for the purpose of calculation of diluted (loss) earnings per share	800,000	628,758

The computation of diluted loss per share for the year ended 31 December 2018 does not assume the exercise of the Company's share options since their assumed exercise would result in a decrease in loss per share.

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.

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

12. TRADE RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**178,170**	194,041
Less: loss allowance	**(7,410)**	(2,457)
	170,760	191,584

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.

	2018	2017
	HK$'000	*HK$'000*
Within 30 days	**136,333**	151,141
31 to 60 days	**22,152**	18,027
61 to 90 days	**4,402**	9,939
91 to 180 days	**7,873**	8,588
181 to 365 days	**–**	3,889
	170,760	191,584

13. TRADE PAYABLES

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

	2018	2017
	HK$'000	*HK$'000*
Within 30 days	**145,753**	192,790
31 to 60 days	**88,511**	84,199
61 to 90 days	**27,136**	23,606
Over 90 days	**4,824**	2,520
	266,224	303,115

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

On 10 November 2017, the Company issued 200,000,000 new ordinary Shares of nominal value of HK$0.01 each in connection with the listing of its Shares on the Stock Exchange (the "**IPO**"). The net proceeds after deducting the underwriting commission and other expenses arising from the IPO were approximately HK$288.3 million.

As stated in the Company's prospectus dated 31 October 2017 (the "**Prospectus**"), the Company intended to use the proceeds to (i) expand the Group's retail network in the PRC and Hong Kong; (ii) strengthen the Group's capabilities in product development under the Group's existing or new brands; (iii) develop experience centres and associated products; and (iv) working capital and other general corporate purposes.

An analysis of the utilisation of the net proceeds from the Listing Date up to 31 December 2018 is set out below:

	Use of proceeds as stated in the Prospectus *HK$ million*	**Actual use of proceeds from the Listing Date to 31 December 2018** *HK$ million*
Expand the Group's retail network in the PRC and Hong Kong		
– Open flagship toy stores in the PRC	60.5	32.4
– Open Kidsland and Babyland stores in the PRC	46.1	32.7
– Open LEGO Certified Stores in the PRC and Hong Kong	34.6	29.5
– Upgrade the information technology system, develop our online business and upgrade store image, visual display and other marketing expenses at the retail points	34.6	34.6
Strengthen the Group's capabilities in product development under the Group's existing or new brands	51.9	31.4
Develop experience centres and associated products	31.7	17.0
	259.4	177.6

ANNUAL GENERAL MEETING

The Company's annual general meeting is currently planned to be held on Friday, 31 May 2019 (the "**2019 AGM**"). A notice convening the 2019 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 2019 AGM AND FINAL DIVIDEND

The Company will close its Register of Members from Tuesday, 28 May 2019 until Friday, 31 May 2019 to count and fix the number of attendees and voters that shall be present at the 2019 AGM. New shareholders that wish to attend and vote at the 2019 AGM should, therefore, register their share transfer(s) and provide their share certificates before 4:30 p.m. on 27 May 2019 to the Company's share register, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

The Board does not recommend the payment of any final dividend for the year ended 31 December 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 between 31 December 2018 and the Company's listing date.

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITION AND DISPOSAL

During the year, there was no significant investments held by the Group and the Group did not have other plans for material acquisition and disposal,

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Group had approximately 2,300 employees (including both self-employed and outsourced employees) (2017: approximately 2,300 employees) in the PRC and Hong Kong. Total remuneration for self-employed and outsourced employees for the year ended 31 December 2018 amounted to approximately HK$175.1 million and HK$137.9 million respectively (2017: approximately HK$167.3 million and HK$47.8 million respectively). The Group's remuneration packages comply with legislation in relevant jurisdictions and were decided based on market conditions and employees' levels of experience and qualifications; bonuses were awarded based on employee performance and the Group's financials. As in previous years, the Group has ensured adequate training and professional development opportunities to employees.

EVENT AFTER REPORTING PERIOD

The Group does not have any material subsequent event after 31 December 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 was maintaining a sufficient public float with more than 25% of its issued shares 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 for the year ended 31 December 2018 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.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules for securities transactions by directors. Having made specific enquiry of all directors, all directors have complied with the required standard set out in the Model Code regarding securities transactions by directors throughout the year ended 31 December 2018.

CHANGES OF COMPOSITION OF THE BOARD

The Company has the following changes in the composition of its Board:

On 31 December 2018, The Board underwent the following restructuring:

Resignation of Committee Member and Director:

Dr. Lo Wing Yan William resigned as the vice chairman, executive director, chief financial officer of the Group and a member of the remuneration committee of the Group.

On 1 January 2019, The Board underwent the following restructuring:

Appointment of Committee Member and Directors:

Mr. Lee Ching Yiu was appointed as a member of remuneration committee of the Group; and

Mr. Hung Shing Ming was appointed as an executive director.

AUDIT COMMITTEE AND REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

As at the date of this announcement, the audit committee of the Board (the "**Audit Committee**") comprised 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 2018 have been reviewed and approved by the Audit Committee, and the Audit Committee is of the opinion that such financial statements comply with 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 2018.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group'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 Messrs. Deloitte Touche Tohmatsu on this announcement.

PUBLICATION OF THE RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The results announcement for the year ended 31 December 2018 is published on the website of the Company (www.kidslandholdings.com) and the Stock Exchange (www.hkexnews.hk). The Company's 2018 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 my sincere gratitude to all our staff for their dedication and cooperation and to all our shareholders for their support, particularly during a year of challenges.

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

Hong Kong, 29 March 2019

As at the date of this announcement, the Board comprises (i) three executive directors, namely, Mr. Lee Ching Yiu, Mr. Hung Shing Ming, 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.