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kidsland

凱知樂

Kidsland International Holdings Limited

凱知樂國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2122)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

HIGHLIGHTS

- The Group recorded an approximately 4.8% increase in revenue from approximately RMB811.1 million in the prior period to approximately RMB850.0 million.
  - Revenue from distributors rose approximately 21.4% to approximately RMB179.6 million in the first half of 2019.
  - Revenue from direct e-commerce (online stores and online key accounts) rose approximately 21.4% to approximately RMB80.7 million.
  - Revenue from retail shops rose approximately 8.2% to approximately RMB331.0 million.
- Gross profit for the first half of 2019 was approximately RMB361.5 million, marking an approximately 7.8% increase from the first half of 2018; gross profit margin increased from approximately 41.3% to 42.5%.
- EBITDA* for the six months ended 30 June 2019, prepared under a comparable basis as the prior period, is approximately RMB19.9 million, improving from an EBITDA loss of approximately RMB28.7 million for the six months ended 30 June 2018.
- Loss for the first half of 2019 compressed by approximately 96.1%, from approximately RMB49.3 million to approximately RMB1.9 million. Adding back non-cash share-based compensations, the adjusted net profit is approximately RMB3.0 million.

* Earnings before interest income, finance costs, income taxes, depreciation, and amortisation

The board (the "Board") of directors (the "Directors") of Kidsland International Holdings Limited (the "Company", together with its subsidiaries, the "Group") is pleased to present the unaudited consolidated results of the Group for the six months ended 30 June 2019 (the "Period"), together with the comparative figures for the corresponding period in 2018.

FINANCIAL INFORMATION

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group's business stabilised substantially in the Period, with loss compressing by approximately 96.1% when compared with that of the same period in 2018. EBITDA (earnings before interest income, finance costs, income taxes, depreciation, and amortisation) for the Period, prepared under a comparable basis as the prior period, is approximately RMB19.9 million, improving from an EBITDA loss of approximately RMB28.7 million in the first half of 2018.

A combination of increased revenue and gross profit margin and decreased expenses significantly enhanced the Group's results for the period under review. When compared with that of the first half of 2018, the Group's revenue and gross profit grew by approximately 4.8% and 7.8%, respectively. Notably, the Group also managed to compress selling and distribution and general and administrative expenses by approximately 4.7% over the same time period to approximately RMB368.2 million.

BUSINESS AND MARKETING

Our extensive sales network comprises self-operated retail channels and wholesale channels. The following is a breakdown as of 30 June 2019:

Self-Operated Retail Channels

– 750 self-operated retail points of sale, consisting of retail shops and consignment counters (30 June 2018: 781);

– 20 online stores (30 June 2018: 17)

Wholesale Channels

– 849 distributors (30 June 2018: 973), who onsell the Group's products through third-party retailers or at their own retail shops

– 16 hypermarket and supermarket chains (30 June 2018: 15)

– 7 online key accounts (30 June 2018: 11)

1. Self Operated Retail Channels

1.1 Retail

The Group operates two types of retail shops in Mainland China and Hong Kong: (i) shops that sell only products of one brand (i.e. LEGO Certified Stores) and (ii) multi-brand shops. These shops specialise in selling toys and products for either children of different age groups (i.e. Kidsland stores) or new-borns and toddlers (e.g. Babyland stores).

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

	Six months ended 30 June	
	2019	2018
Retail shops		
At the beginning of the period	**257**	245
Opening of new retail shops	**10**	15
Closing of retail shops	**(21)**	(8)
Net (decrease)/increase in the number of retail shops	**(11)**	7
At the end of the period	**246**	252

1.2 Consignment counters

Most of the Group's consignment counters are located at well-established department stores and a renowned global toy store chain. Most of these counters operated under the brand name of Kidsland.

The number of consignment counters for the periods indicated are shown below:

	Six months ended 30 June	
	2019	2018
Consignment counters		
At the beginning of the period	**519**	535
Opening of new consignment counters	**17**	25
Closing of consignment counters	**(32)**	(31)
Net decrease in the number of consignment counters	**(15)**	(6)
At the end of the period	**504**	529

1.3 Online stores

As of 30 June 2019, the Group had 20 online stores in total, as opposed to 17 as of 30 June 2018 on platforms such as Tmall, JD.com, Xiaohongshu, and Kaola.

2. Wholesale Channels

The Group's wholesale business comprises (i) distributors, (ii) hypermarket and supermarket chains, and (iii) online key accounts in Mainland China.

2.1 Distributors

Selling to distributors reduces logistics and warehousing costs, improves working capital position, and expands the Group's network into promising markets that may have been untapped by the Group's retail points.

As of 30 June 2019, the Group had 849 distributors, who onsell the Group's products at retail shops, which totalled to 3,422 in Mainland China, or through third-party retailers. By leveraging on the distributors' geographical base, retail point locations, distribution network, business strategies, financial resources, and expertise, the Group has built one of the deepest and widest distribution networks for toys and infant products in Mainland China.

Number of distributors for the Period is as follows:

	Six months ended 30 June	
	2019	2018
Distributors		
At the beginning of the period	**931**	962
Addition of new distributors	**88**	152
Expiry without renewal of agreements with distributors	**(170)**	(141)
Net (decrease)/increase in the number of distributors	**(82)**	11
At the end of the period	**849**	973

2.2 Hypermarket and Supermarket Chains

Hypermarkets and supermarkets are generally divided into upscale supermarkets, community supermarkets, convenient stores, and shopping clubs with membership schemes. Partnerships with such store chains drive sales by enabling the Group's products to reach wider audiences across Mainland China.

The Group 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 the Group to reconcile real-time sales records. As of 30 June 2019, the Group had wholesale arrangements with 16 hypermarket and supermarket chains with a total of 689 retails points in Tier 1, Tier 2, and Tier 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 periods indicated:

	Six months ended 30 June	
	2019	2018
Hypermarket and supermarket chains		
At the beginning of the period	**16**	14
Addition of new hypermarket and supermarket chains	**–**	1
Termination or expiry of agreements with hypermarket and supermarket chains	**–**	–
Net increase in the number of hypermarket and supermarket chains	**–**	1
At the end of the period	**16**	15

2.3 Online Key Accounts

The internet has become one of the main sales channels in Mainland China. To take advantage of access to this sales channel, we have been selling through such platforms as JD.com and Netease Kaola, whom we selected based on reputation, financial condition, and market share.

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

	Six months ended 30 June	
	2019	2018
Online key accounts		
At the beginning of the period	**7**	13
Addition of new online key accounts	**–**	1
Termination or expiry of agreements with online key accounts	**–**	(3)
Net decrease in the number of online key accounts	**–**	(2)
At the end of the period	**7**	11

FINANCIAL REVIEW

Revenue

During the Period, the revenue of the Group increased by approximately 4.8% from approximately RMB811.1 million in the prior period to approximately RMB850.0 million.

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Self-operated retail channels		
– Retail shops	**331,045**	305,826
– Consignment counters	**245,999**	270,949
– Online stores	**46,453**	37,318
Sub-total:	**623,497**	614,093
Wholesale channels		
– Distributors	**179,581**	147,979
– Hypermarket and supermarket chains	**12,673**	19,859
– Online key accounts	**34,213**	29,148
Sub-total:	**226,467**	196,986
Total:	**849,964**	811,079

For the six months ended 30 June 2019, sales of toy products accounted for approximately 95.5% (six months ended 30 June 2018: 92.0%) of the Group's revenue and sales of infant products accounted for approximately 4.5% (the six months ended 30 June 2018: 8.0%) of the Group's revenue.

For the Period, wholesale revenue increased by approximately 14.9% from RMB197.0 million for the first half of the year 2018 to RMB226.5 million. Revenue from wholesale distribution, the main driver of this growth, increased approximately 21.4% to approximately RMB 179.6 million in the first half of 2019.

Furthermore, the Group's total revenue through direct e-commerce (online stores and online key accounts) grew by approximately 21.4% to reach approximately RMB80.7 million, and as of 30 June 2019, represented approximately 9.5% of the Group's total revenue (1H2018: approximately 8.2%).

Self-operated retail channels

For the Period, revenue contributed by self-operated retail channels increased by approximately 1.5% from approximately RMB614.1 million from to approximately RMB623.5 million. This is mainly attributable to an approximately 4.1% increase in revenue from Kidsland and Babyland stores and an approximately 17.6% increase in revenue for LEGO Certified Stores.

Retail Shops

	Six months ended 30 June	
	2019	2018
	RMB millions	*RMB millions*
Single-brand retail shops		
– LEGO Certified Stores	**110.5**	94.0
– Others	**–**	0.8
Sub-total:	**110.5**	94.8
Multi-brand retail shops		
– Kidsland stores/Babyland stores	**211.1**	202.8
– Others	**9.4**	8.2
Sub-total:	**220.5**	211.0
Total:	**331.0**	305.8

Revenue from retail shops rose by approximately 8.3% to approximately RMB331.0 million. Focusing on profitable growth, the Group has been optimising its shop count, size of shops and product mix. This translates to higher productivity and profitability per shop.

Wholesale channels

For the Period, wholesale revenue increased by approximately 15.0% from approximately RMB197.0 million for the first half of the year 2018 to approximately RMB226.5 million.

Revenue earned from distributors increase by approximately 21.4% to approximately RMB179.6 million. This is attributable to improvements in client mix, product mix and hence, increased productivity. The Group's online key accounts recorded a sales growth of approximately RMB5.1 million, or approximately a 17.4% increase from the previous period.

Direct e-commerce

Combining revenue from online key accounts and online stores, the Group's total revenue through direct e-commerce summed up to approximately RMB80.7 million, contributing to approximately 9.5% of the Group's total revenue in the Period (1H2018: approximately 8.2%).

Cost of Goods Sold, Gross Profit and Gross Profit Margin

Cost of goods sold increased by approximately 2.7% from approximately RMB475.8 million for the six months ended 30 June 2018 to approximately RMB488.5 million for the six months ended 30 June 2019. As a result, the Group's gross profit margin increased from approximately 41.3% for the six months ended 30 June 2018 to approximately 42.5% for the Period. This is attributable to continued efforts to improve product mix. As for the Group's gross profit, it increased from approximately RMB335.3 million for the six months ended 30 June 2018 to approximately RMB361.5 million for the Period.

Other Income

Other income increased by approximately RMB3.4 million from approximately RMB10.4 million for the six months ended 30 June 2018 to approximately RMB13.8 million for the Period. Other income mainly consists of promotion income from brand owners and government grants and commission income for themed hotel rooms that opened in the Period. The increase is mainly attributable to higher service fees charged to brand owners for marketing activities.

Other Losses, net

Other losses, net decreased by approximately RMB2.9 million from approximately RMB4.2 million for the six months ended 30 June 2018 to approximately RMB1.4 million for the Period. Other losses mainly consist of net exchange losses and losses incurred from the disposal of property, plant and equipment.

Selling and Distribution Expenses

Selling and distribution expenses decreased slightly from approximately RMB329.6 million for the six months ended 30 June 2018 to approximately RMB328.2 million for the Period.

General and Administrative Expenses

General and administrative expenses decreased by approximately 29.6% from RMB56.8 million for the six months ended 30 June 2018 to approximately RMB40.0 million for the Period. The decrease is mainly attributable to decrease in rental expenses, lower wages, staff costs, and share option expenses.

Profit/Loss Before Tax

The Group's profit before tax is approximately RMB0.3 million for the Period, improving from a loss before tax of approximately RMB46.8 million in the prior period.

Income Taxes

The Group's income tax expenses decreased from approximately RMB2.53 million for the six months ended 30 June 2018 to approximately RMB2.27 million for the Period.

EBITDA*

EBITDA* for the six months ended 30 June 2019, prepared under a comparable basis as the prior period, is approximately RMB19.9 million, improving from an EBITDA loss of approximately RMB28.7 million for the six months ended 30 June 2018.

Accounts Receivables and Payables

For the Period, turnover days of accounts receivables decreased by approximately 5 days to approximately 32 days (the first half of 2018: approximately 37 days). Turnover days of accounts payables increased by 6 days from approximately 88 days to 94 days.

Inventory

The Group's inventory turnover days increased from approximately 200 days for the six months ended 30 June 2018 to approximately 211 days for the Period. The increase inventory turnover is mainly due to the introduction of new brands and product lines.

Cash Conversion Cycle

The cash conversion cycle metric shows the amount of time that a company uses to convert its investment in inventory to cash. This is calculated by adding inventory turnover (days) and accounts receivable turnover (days) and subtracting accounts payable turnover (days).

The Group's cash conversion cycle remained stable at approximately 149 days for the first half of 2018 and 2019.

Capital Expenditure

During the Period, the Group invested approximately RMB28.9 million (the six months ended 30 June 2018: approximately RMB21.8 million) in property, plant, and equipment, mainly to renovate stores including the newly-opened FAO Schwarz flagship store in Beijing.

Liquidity and Financial Resources

The Group's cash and bank balances as of 30 June 2019 were approximately RMB85.4 million (31 December 2018: approximately RMB112.2 million). As of 30 June 2019, the current ratio was 2.2 (31 December 2018: 2.9), and the quick ratio was approximately 1.0 (31 December 2018: 1.2).

* Earnings before interest income, finance costs, income taxes, depreciation, and amortisation

As of 30 June 2019, the Group had aggregate banking facilities of approximately RMB116.0 million (31 December 2018: approximately RMB110.1 million) for bank loans and trade financing, of which approximately RMB73.8 million was unutilised (31 December 2018: approximately RMB86.6 million). These facilities are secured by corporate guarantees provided by the Company.

Gearing Ratio

Excluding lease liabilities, the Group was in a net cash position as at 30 June 2019 and hence no gearing ratio is presented (31 December 2018: nil).

Charge of Assets

As of 30 June 2019, no charges were made on the Group's assets (31 December 2018: nil).

Contingent Liabilities

As of 30 June 2019, the Group did not have significant contingent liabilities (31 December 2018: nil).

Foreign Exchange

The Group is exposed to foreign exchange risk arising from exposure in the Euro, Japanese Yen and Hong Kong Dollar against the Chinese Renminbi. Although the Group's management personnel monitors the Group's foreign exchange risks regularly, exchange rate fluctuations could affect the Group's margins and profitability. Commencing 1 January 2019, the Group has adopted Renminbi as its presentation currency, which is expected to reduce the impact of fluctuations of the exchange rate between Renminbi and Hong Kong Dollars on the presentation of the Group's consolidated financial statements.

RESULTS

Below are the unaudited condensed consolidated results of the Group for the six months ended 30 June 2019, prepared on the basis set out in Note 1 on page 15 of this announcement, together with the comparative figures for the six months ended 30 June 2018.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

		Six months ended 30 June	
		2019	2018
	NOTE	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited) (restated) *(note 1.1)*
Revenue	*4*	**849,964**	811,079
Cost of goods sold		**(488,450)**	(475,805)
Gross profit		**361,514**	335,274
Other income	*5*	**13,789**	10,395
Other losses, net	*6*	**(1,352)**	(4,244)
Reversal of impairment loss/(impairment loss) on financial assets		**2,052**	(1,731)
Selling and distribution expenses		**(328,226)**	(329,646)
General and administrative expenses		**(39,985)**	(56,820)
Operating profit/(loss)		**7,792**	(46,772)
Finance costs		**(7,458)**	–
Profit/(loss) before tax		**334**	(46,772)
Income tax expense	*7*	**(2,271)**	(2,531)
Loss for the period	*8*	**(1,937)**	(49,303)
Other comprehensive loss			
Item that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**(3,186)**	(2,567)
Other comprehensive loss for the period, net of tax		**(3,186)**	(2,567)
Total comprehensive loss for the period		**(5,123)**	(51,870)

	NOTE	Six months ended 30 June **2019** ***RMB'000*** **(unaudited)**	2018 *RMB'000* (unaudited) (restated) *(note 1.1)*
(Loss)/profit for the period attributable to:			
Owners of the Company		**(4,504)**	(52,193)
Non-controlling interest		**2,567**	2,890
		(1,937)	(49,303)
Total comprehensive income/(loss) for the period attributable to:			
Owners of the Company		**(7,665)**	(54,672)
Non-controlling interest		**2,542**	2,802
		(5,123)	(51,870)
Loss per share, basic and diluted	*10*	**RMB(0.56 cents)**	RMB(6.52 cents)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTE	At 30 June 2019 RMB'000 (unaudited)	At 31 December 2018 RMB'000 (audited) (restated) (note 1.1)
ASSETS			
Non-current assets			
Property, plant and equipment		**66,013**	61,670
Deposit paid for acquisition of property, plant and equipment		**114**	201
Rental deposits		**28,214**	27,377
Right-of-use assets		**188,529**	–
Deferred tax assets		**9,403**	8,743
Intangible assets		**10,215**	10,174
		302,488	108,165
Current assets			
Inventories		**586,853**	538,697
Trade receivables	*11*	**132,659**	149,621
Other receivables, deposits and prepayments		**127,309**	105,808
Contract assets		**1,793**	–
Tax recoverable		**–**	827
Financial asset at fair value through profit or loss ("FVTPL")		**16,534**	16,468
Bank balances and cash		**85,429**	112,246
		950,577	923,667
LIABILITIES			
Current liabilities			
Trade payables	*12*	**277,939**	233,265
Other payables and accruals		**61,512**	67,715
Lease liabilities		**58,170**	–
Contract liabilities		**20,479**	16,212
Current tax liabilities		**5,627**	5,936
		423,727	323,128

	NOTE	At **30 June 2019** ***RMB'000*** **(unaudited)**	At 31 December 2018 *RMB'000* (audited) (restated) *(note 1.1)*
Non-current liabilities			
Provision for reinstatement costs		**7,627**	8,161
Lease liabilities		**125,953**	–
		133,580	8,161
Net current assets		**526,850**	600,539
Total assets less current liabilities		**829,338**	708,704
Net assets		**695,758**	700,543
EQUITY			
Owners of the Company			
Share capital		**6,931**	6,931
Reserves		**677,837**	685,164
		684,768	692,095
Non-controlling interest		**10,990**	8,448
Total equity		**695,758**	700,543

Notes

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2019 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). Certain comparative figures have been reclassified to conform with current year's presentation of the financial statements.

1.1 Change in presentation currency

During the year, the Group has changed its presentation currency from Hong Kong dollars ("HK$") to Renminbi ("RMB") for the preparation of its condensed consolidated interim financial information. Having considered the principal activities of the Group are mainly conducted in the People's Republic of China ("PRC") where the functional currency of those subsidiaries in the PRC are denominated in RMB, the directors of the Company considered that the change would result in a more appropriate presentation of the Group's transactions in these consolidated financial information.

The change in presentation currency have been applied retrospectively. The comparative figures in these condensed consolidated interim financial information were translated from HK$ to RMB using the applicable closing rates for items in the consolidated statement of financial position and applicable average rates that approximated to actual rates for items in the consolidated statement of profit or loss and other comprehensive income.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial information have been prepared on the historical cost basis except for the financial asset at FVTPL which is measured at fair value.

The accounting policies applied to this condensed consolidated interim financial information are consistent with those of the annual financial statements for the year ended 31 December 2018 as described in those annual financial statements except that income tax is accrued using the tax rate that would be applicable to expected total annual earnings and the adoption of new and amended standards as set out below.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated interim financial information:

HKFRS 16	Leases
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle
HK(IFRIC) 23	Uncertainty over income tax treatments

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

2.1 Impacts and changes in accounting policies on application of HKFRS 16 "Leases"

The Group leases various offices and warehouses. Rental contracts are typically made for fixed periods but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until 31 December 2018, payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments).

The lease payments are discounted using incremental borrowing rate of the Group which the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

The Group has adopted HKFRS 16 "Leases" from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the simplified transition approach in the standard on a modified retrospective basis. The reclassifications and the adjustments arising from the new leasing standards are therefore recognised in the opening consolidated statement of financial position on 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019 in each territory or region where the lease assets are located. The weighted average discount rate applied to the lease liabilities on 1 January 2019 was 6.5%.

Set out below is a reconciliation of the operating lease commitments disclosed at 31 December 2018 to lease liabilities recognised on 1 January 2019:

	RMB'000
Operating lease commitments disclosed as at 31 December 2018 (restated) *(Note 1.1)*	219,500
Less: Short-term leases to be recognised on a straight-line basis as expense	(20,361)
	199,139
Effect of discounting at incremental borrowing rate at the date of initial adoption	(34,740)
Lease liabilities recognised upon initial adoption of HKFRS 16	164,399
Representing:	
Current lease liabilities	119,235
Non-current lease liabilities	45,164
	164,399

The right-of-use assets were measured on a retrospective basis as if the new rules had always been applied, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	At 30 June 2019 ***RMB'000*** **(unaudited)**	At 1 January 2019 *RMB'000* (unaudited)
Leased premises and warehouse	**188,529**	163,244
Total	**188,529**	163,244

The change in accounting policy affected the following items in the condensed consolidated statement of financial position on 1 January 2019:

Condensed consolidated statements of financial position (extract)	**At 31 December 2018 as originally presented** *RMB'000* (Restated) *(Note 1.1)*	**Effects of the adoption of HKFRS 16** *RMB'000*	**At 1 January 2019 restated** *RMB'000*
Non-current assets			
Property, plant and equipment	61,670	(5,664)	56,006
Right-of-use assets	–	163,244	163,244
Deferred income tax assets	8,743	2,002	10,745
Current assets			
Other receivables, deposits and prepayments	105,808	(1,188)	104,620
Non-current liabilities			
Lease liabilities	–	119,235	119,235
Current liabilities			
Other payables and accruals	67,715	(1,380)	66,335
Lease liabilities	–	45,164	45,164
Equity			
Retained earnings	270,808	(4,625)	266,183

2.1.1 *Practical expedients applied*

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 "Lease" and HKFRIC 4 "Determining whether an Arrangement contains a Lease".

New and amended standards and interpretations not yet adopted

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2019 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture	To be determined
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Amendments to HKFRS 3	Definition of a Business	1 January 2020
HKFRS 17	Insurance contracts	1 January 2021

The Group is assessing the full impact of the new standards, new interpretations and amendments to standards and interpretations.

3. ESTIMATION

The preparation of condensed consolidated interim financial information requires 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 management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.

4. REVENUE AND SEGMENT INFORMATION

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

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

Segment revenues and results

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

Six months ended 30 June 2019 (unaudited)

	Sales of toy products *RMB'000*	**Sales of infant products** *RMB'000*	**Total** *RMB'000*
Revenue			
– Revenue recognised at a point in time	**811,490**	**38,474**	**849,964**
Segment profit	**323,689**	**15,303**	**338,992**
Unallocated income			**7,455**
Unallocated expenses			**(346,813)**
Unallocated reversal of impairment loss on financial asset			**2,052**
Unallocated other losses, net			**(1,352)**
Profit before tax			**334**

Six months ended 30 June 2018 (unaudited) (restated) (note 1.1)

	Sales of toy products *RMB'000*	Sales of infant products *RMB'000*	Total *RMB'000*
Revenue			
– Revenue recognised at a point in time	746,218	64,861	811,079
Segment profit	292,971	30,877	323,848
Unallocated income			4,798
Unallocated expenses			(369,443)
Unallocated impairment loss on financial assets			(1,731)
Unallocated other losses, net			(4,244)
Loss before tax			(46,772)

The accounting policies of the operating segments are the same as the Group's accounting policies.

5. OTHER INCOME

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
		(restated)
		(note 1.1)
Interest income	**172**	114
Promotion income from brand owners	**6,334**	5,597
Government grants *(note)*	**3,457**	3,900
Sundry income	**3,826**	784
	13,789	10,395

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

6. OTHER LOSSES, NET

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
		(restated)
		(note 1.1)
Net exchange loss	**(672)**	(3,567)
Loss on fair value changes of financial asset at FVTPL	**–**	(113)
Loss on disposal of property, plant and equipment	**(227)**	–
Others	**(453)**	(564)
	(1,352)	(4,244)

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(restated)
		(note 1.1)
Current tax:		
Hong Kong Profits Tax	**863**	688
PRC withholding taxes	**–**	1,697
PRC Enterprise Income Tax	**67**	2,206
	930	4,591
Deferred tax:		
Current year	**1,341**	(2,060)
	2,271	2,531

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

The standard PRC Enterprise Income Tax rate is 25%. Certain subsidiaries are entitled to preferential tax concession.

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. No such services fee are charged during the period ended 30 June 2019 and therefore no withholding tax is incurred.

8. LOSS FOR THE PERIOD

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
		(restated)
		(note 1.1)
Loss for the period is arrived at after charging/(crediting):		
Employee's benefits expense (including directors' emoluments)	**122,182**	125,057
(Reversal of)/allowance for inventories, net (included in cost of goods sold)	**(5,559)**	3,656
Auditor's remunerations – audit services	**1,109**	1,330
Depreciation of property, plant and equipment	**17,583**	18,034
Depreciation of right-of-use asset	**53,682**	–
Rental expense in respect of		
– variable leases payments	**5,674**	6,395
– short term leases	**26,162**	20,361
– other rental expenses	**–**	52,089

9. DIVIDENDS

No dividend was proposed by the directors of the Company during 2019 and 2018, nor has any dividend been proposed since the end of the reporting period.

10. LOSS PER SHARE, BASIC AND DILUTED

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

	Six months ended 30 June	
	2019	2018
Loss attributable to the owners of the Company *(in RMB'000)*	**(4,504)**	(52,193)
Weighted average number of ordinary shares for the purpose of calculation of loss per share *(in '000)*	**800,000**	800,000

The computation of diluted loss per share for the six months ended 30 June 2019 does not assume the exercise of the Company's outstanding share options since their exercise would result in a decrease in loss per share for the six months ended 30 June 2019.

11. TRADE RECEIVABLES

	At 30 June 2019	At 31 December 2018
	RMB'000	*RMB'000*
	(unaudited)	(audited) (restated) *(note 1.1)*
Trade receivables, net	**132,659**	149,621

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

	At 30 June 2019	At 31 December 2018
	RMB'000	*RMB'000*
	(unaudited)	(audited) (restated) *(note 1.1)*
Within 30 days	**103,077**	119,456
31 to 60 days	**10,205**	19,410
61 to 90 days	**2,533**	3,857
91 to 180 days	**10,184**	6,898
181 to 365 days	**6,660**	–
	132,659	149,621

12. TRADE PAYABLES

	At 30 June 2019 *RMB'000* **(unaudited)**	At 31 December 2018 *RMB'000* (audited) (restated) *(note 1.1)*
Trade payables	**277,939**	233,265

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

	At 30 June 2019 *RMB'000* **(unaudited)**	At 31 December 2018 *RMB'000* (restated) *(note 1.1)*
Within 30 days	**169,354**	127,709
31 to 60 days	**73,056**	77,553
61 to 90 days	**23,258**	23,776
Over 90 days	**12,271**	4,227
	277,939	233,265

13. CONTRACT LIABILITIES

Contract liabilities of the Group arise from the advance payment made by customers while the underlying products are yet to be delivered, provision for sales return and customer loyalty program.

14. SHARE CAPITAL

	Number of shares	*RMB'000*
Ordinary shares of HK$0.01 each		
Authorised:		
At 31 December 2018, 1 January 2019 and 30 June 2019	50,000,000,000	433,188
Issued and fully paid:		
At 31 December 2018, 1 January 2019 and 30 June 2019	800,000,000	6,931

EMPLOYEES AND REMUNERATION POLICY

As of 30 June 2019, the Group had approximately 2,250 employees (including both in-house and outsourced employees) (30 June 2018: approximately 2,300 employees) in the Mainland and Hong Kong. Total remuneration for in-house and outsourced employees for the six month ended 30 June 2019 amounted to approximately RMB122.2 million in total (the six months ended 30 June 2018: approximately RMB125.1 million in total). 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 the past, the Group has ensured adequate training and professional development opportunities to employees.

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITION AND DISPOSAL

During the Period, the Group held no significant investments and did not have other plans for material acquisition and disposal.

OTHER INFORMATION

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

Neither the Company nor any of its subsidiaries had purchased, sold, or redeemed any of the Company's listed securities during the Period.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

No important events affecting the Group have taken place after 30 June 2019 until the date of this announcement.

CORPORATE GOVERNANCE

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. Except for the deviation explained in the following paragraph, the Company has complied with all the code provisions in the CG Code for the Period.

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 Ching Yiu. As the founder of the Group, Mr. Lee Ching Yiu 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 Ching Yiu continues to assume the roles of Chairman and CEO.

Use of Proceeds from Initial Public Offering (The "IPO")

On 10 November 2017, the Company, in connection with its initial public offering on the Stock Exchange, issued 200,000,000 ordinary shares each holding a nominal value of HK$0.01. Net proceeds after deducting underwriting commissions and other IPO expenses amounted to HK$288.3 million.

As stated in the Company's prospectus dated 31 October 2017, 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 product development capabilities for the Group's brands; (iii) develop experience centres and associated products; and (iv) bolster its working capital.

An analysis of the utilisation of the net proceeds from the Listing Date up to 30 June 2019 is set out below:

	Use of proceeds as stated in the Prospectus *HK$ millions*	Actual use of proceeds from the Listing Date to 30 June 2019 *HK$ millions*
To expand the Group's retail network in the PRC and Hong Kong		
– Opening flagship toy stores in the PRC	60.5	60.5
– Opening Kidsland and Babyland stores in the PRC	46.1	33.0
– Opening LEGO Certified Stores in the PRC and Hong Kong	34.6	34.1
– Upgrading the information technology system, developing e-commerce business, upgrading store image, visual display, and paying for other marketing expenses at the retail points	34.6	34.6
To strengthen the Group's product development capabilities	51.9	51.9
To develop experience centres and associated products	31.7	17.6
	259.4	231.7

Interim Dividend

The Board has resolved not to recommend any interim dividend in respect of the six months ended 30 June 2019 (30 June 2018: nil).

AUDIT COMMITTEE AND REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

As at the date of this announcement, the Board's audit committee (the "Audit Committee") comprise of three independent non-executive directors: Mr. Cheng Yuk Wo (chairman of the Audit Committee), Dr. Lam Lee G., and Mr. Huang Lester Garson. The unaudited interim condensed consolidated financial statements of the Group for the Period have been reviewed by the Audit Committee.

The unaudited condensed consolidated interim financial information have been reviewed by PricewaterhouseCoopers, the Company's independent auditor, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", which was also issued by the Hong Kong Institute of Certified Public Accountants.

MODEL CODE SECURITIES TRANSACTIONS

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), as set out in Appendix 10 of the Listing Rules as the code for the dealings in securities transactions by the Directors. Having made specific enquiries with all the directors confirmed that they complied with the required standard of dealings set out in the Model Code throughout the Period.

PUBLICATION OF THE RESULTS ANNOUNCEMENT AND INTERIM REPORT

The results announcement for the Period is published on the websites of the Company (www.kidslandholdings.com) and the Stock Exchange (www.hkexnews.hk). The interim report of the Company for the Period will be dispatched to the shareholders of the Company and made available in the two aforementioned websites in due course.

PROSPECTS

In the first half of 2019, we took a big step forward by opening the FAO Schwarz flagship store in Beijing. This store set new heights in Mainland China's toy industry by providing high-quality experiential shopping and hence has been making a positive impact on the Group's reputation and further cementing our leadership in the marketplace.

The Group expects economic adjustments in Mainland China and the trade war between the USA and China to continue and add uncertainty to the retail market's outlook. Nevertheless, we remain focused on improving product mix, mix of sales channels, and operational efficiency, all of which, unlike the aforementioned macroeconomic factors, are well within grasp. We believe that we are well-positioned to make performance leaps in the near future.

GRATITUDE

Sincere gratitude is expressed to all our staff members for their dedication and cooperation and to all our shareholders for their support.

By order of the Board
Kidsland International Holdings Limited
凱知樂國際控股有限公司
Lee Ching Yiu
Chairman,
Chief Executive Officer
and Executive Director

Hong Kong, 27 August 2019

As of the date of this announcement, the Board comprised Mr. Lee Ching Yiu, Mr. Hung Shing Ming, and Ms. Zhong Mei as executive directors; Mr. Du Ping, and Ms. Duan Lanchun as non-executive directors; and Mr. Cheng Yuk Wo, Dr. Lam Lee G., and Mr. Huang Lester Garson as independent non-executive directors.