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)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

HIGHLIGHTS OF 2019 ANNUAL RESULTS

- In spite of the many challenges seen in 2019, the Group recorded a 3.6% increase in revenue from approximately RMB1,650.1 million in 2018 to approximately RMB1,710.0 million in 2019.
  - Revenue from retail shops rose 6.2% to approximately RMB656.6 million in 2019.
  - Revenue from distributors rose 17.5% to approximately RMB378.9 million in 2019.
  - Revenue from wholesales channels rose 13.7% to approximately RMB487.4 million, representing 28.5% of total revenue in 2019 compared to 26.0% in prior year.
  - Revenue from e-commerce (online stores and online key accounts) rose 11.4% to approximately RMB174.3 million, representing 10.2% of total revenue in 2019, compared to 9.5% in prior year.
- Gross profit for the year was approximately RMB678.8 million with gross profit margin decreasing from 42.6% in 2018 to 39.7% in 2019. The gross profit margin before special inventory provision[1] (the "adjusted gross profit margin"[4]) for Mainland China ("Mainland") is 41.9% (2018: 42.8%).
- Selling and distribution, and general and administration expense decreased by 5.2% from approximately RMB779.4 million in 2018 to approximately RMB739.0 million in 2019.
- Adjusted EBITDA[2, 4] for the year was approximately RMB17.7 million (2018: an adjusted EBITDA loss RMB3.8 million).
- Loss for the year decreased from approximately RMB84.6 million in 2018 to approximately RMB79.5 million in 2019.
- Adjusted loss[3, 4] for the year was approximately RMB20.5 million (2018: Adjusted loss RMB47.5 million). Adjusted loss margin[4] compressed to 1.2% in 2019 from 2.9% in 2018.

1 The special inventory provision is a one-time special provision made for obsolete inventory arising from discontinued brands of RMB29.2 million.

2 Adjusted EBITDA means EBITDA (Earnings before interest income, finance costs, income taxes, depreciation and amortization), adjusted for share based payment, net exchange loss, special inventory provision and fair value loss on financial asset at fair value through profit or loss, prepared under a comparable basis as the prior period.

3 Adjusted (Loss)/Profit means (Loss)/Profit for the period, adjusted for share based payment, net exchange loss, special inventory provision (net of tax effect) and fair value loss on financial asset at fair value through profit or loss.

4 Represents a non-HKFRS financial measure.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

In 2019, we focused on executing our turnaround plan to enhance brand and channel effectiveness, and our operational efficiency. We have made steady progress. The pace of the return to profitability, however, suffered some setback and delay due to many global macro-economic headwinds and unexpected social unrest in Hong Kong.

In the first half of 2019, we managed to reduce our net loss by 96.1% compared to the first half of 2018. Adjusted EBITDA[1, 3] in the first half of 2019 turned positive to be RMB25.0 million, improving from an Adjusted EBITDA[1, 3] loss of approximately RMB12.4 million in the first half of 2018. Our Adjusted Profit[2, 3] was RMB3.7 million in the first half of 2019, improving from an Adjusted Loss of RMB32.9 million in the first half of 2018.

However, Sino-US trade tension re-escalation, slowing PRC economy and social unrest in Hong Kong weighed on our financial performance, especially in the second half of 2019. Yet our efforts in managing our expenses had led our total selling, distribution, general and administrative expenses to drop by RMB40.3 million to RMB739.0 million in 2019, while we managed to keep our revenue growing at 3.6%. As a result, our Adjusted EBITDA[1, 3] in 2019 turned positive to be RMB17.7 million, improving from an EBITDA loss of approximately RMB3.8 million in 2018. Our Adjusted Loss[2, 3] in 2019 was RMB20.5 million, improving from an Adjusted Loss of RMB47.5 million in 2018.

We are convinced the momentum leading to change is coming together and gathering steam. Many aspects of the strategy and execution are also within our reach, rather than relying on external factors.

RETAIL AND WHOLESALE BUSINESS

Our extensive distribution network comprises self-operated retail channels and wholesale channels. As of 31 December 2019, this network comprises:

Self-operated Retail Channels

– 744 self-operated retail points of sale consisting of retail shops and consignment counters (31 December 2018: 776)

– 20 online stores (31 December 2018: 22)

Wholesale Channels

– 697 distributors (31 December 2018: 931) who onsell our products through third party retailers or at their own retail shops, the number of which amounts to over 2,100 (31 December 2018: over 3,000)

– 16 hypermarket and supermarket chains (31 December 2018: 16)

– 5 online key accounts (31 December 2018: 7)

[1] Adjusted EBITDA means EBITDA (Earnings before interest income, finance costs, income taxes, depreciation and amortization), adjusted for share based payment, net exchange loss, special inventory provision and fair value loss on financial asset at fair value through profit or loss, prepared under a comparable basis as the prior period.

[2] Adjusted (Loss)/Profit means (Loss)/Profit for the period, adjusted for share based payment, net exchange loss, special inventory provision (net of tax effect) and fair value loss on financial asset at fair value through profit or loss.

[3] Represents a non-HKFRS financial measure.

Self-operated Retail Channels

Retail Shops

From 1 January 2019 to 31 December 2019 (the "Reporting Period"), we continued to optimise our store network.

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

	2019	2018
Retail shops		
At the beginning of the year	**257**	245
Addition of new retail shops	**22**	40
Closing of retail shops	**(40)**	(28)
At the end of the year	**239**	257

Consignment counters

Most of our consignment counters were located at renowned department stores and a renowned regional toy store chain, and most of them operated under the brand name of Kidsland. During 2019, we continued to open new counters only at strategically selected locations. At the same time, we terminated some loss-making consignment counters.

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

	2019	2018
Consignment counters		
At the beginning of the year	**519**	535
Addition of new consignment counters	**43**	56
Closing of consignment counters	**(57)**	(72)
At the end of the year	**505**	519

Online stores

During 2019, the Group launched 2 and closed 4 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 2019, we had 20 online stores in total, compared with 22 in total in 31 December 2018.

Wholesale Channels

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

Distributors

As of 31 December 2019, we had 697 distributors (2018: 931), who onsell our products at retail shops, which totaled to more than 2,100 (2018: 3,000) in the PRC, or through third party retailers. As market consolidates, we are now focusing on fewer but relatively larger distributors, hence improving efficiency and effectiveness.

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

	2019	2018
Distributors		
At the beginning of the year	**931**	962
Addition of new distributors	**155**	282
Expiry without renewal of agreements with distributors	**(389)**	(313)
At the end of the year	**697**	931

Hypermarket and Supermarket Chains

As of 31 December 2019, we had wholesale arrangements with 16 hypermarket and supermarket chains (2018: 16) with a sum of 689 (2018: 689) retails points in Tier 1, 2 and 3 cities in the PRC (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:

	2019	2018
Hypermarket and supermarket chains		
At the beginning of the year	**16**	14
Addition of new hypermarket and supermarket chains	**–**	2
At the end of the year	**16**	16

Online Key Accounts

During 2019, the number of our online key accounts has decreased to 5 (2018: 7).

	2019	2018
Online key accounts		
At the beginning of the year	**7**	13
Addition of new online key accounts	**–**	2
Termination or expiry of agreements with online key accounts	**(2)**	(8)
At the end of the year	**5**	7

FINANCIAL REVIEW

Revenue

For 2019, the revenue of the Group increased by 3.6% from approximately RMB1,650.1 million for 2018 to approximately RMB1,710.0 million for 2019.

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

	2019	2018
	RMB'000	*RMB'000*
Self-operated retail channels		
– Retail stores	**656,550**	618,018
– Consignment counters	**474,918**	519,704
– Online stores	**91,167**	83,734
Sub-total:	**1,222,635**	1,221,456
Wholesale channels		
– Distributors	**378,927**	322,526
– Hypermarkets and supermarket chains	**25,324**	33,392
– Online key accounts	**83,155**	72,734
Sub-total:	**487,406**	428,652
Total:	**1,710,041**	1,650,108

Self-operated Retail Channels

The self-operated retail channels recorded an increase in revenue of 0.1% to RMB1,222.6 million in 2019. Revenue from our online stores increased by 8.9% to approximately RMB91.2 million. Our retail stores revenue increased by 6.2% to approximately RMB656.6 million by increasing store productivity. The revenue from our consignment counters, however, decreased by 8.6% to approximately RMB474.9 million.

Wholesale Channels

For 2019, the revenue contributed by wholesale channels increased by 13.7% from approximately RMB428.7 million for 2018 to approximately RMB487.4 million, representing 28.5% of total revenue in 2019 compared to 26.0% in prior year.

Despite the fact that the number of distributors has decreased from 931 in 2018 to 697 in 2019, the revenue from distributors has increased from approximately RMB322.5 million in 2018 to approximately RMB378.9 million in 2019. The increase is mainly due to the strong growth from certain category leading brands we carry.

Our online key accounts recorded revenue growth of approximately RMB10.4 million, representing a 14.3% increase from the prior year. Combining revenue from online key accounts and online stores, our total revenue through e-commerce totaled approximately RMB174.3 million, or 10.2% of our total revenue in 2019 (2018: 9.5%).

Cost of Sales, Gross Profit and Gross Profit Margin

Cost of sales increased by 8.8% from approximately RMB947.8 million in 2018 to approximately RMB1,031.2 million in 2019. The increase was mainly due to an increase in revenue volume and a special inventory provision of RMB29.2 million. The Group's gross profit margin decreased from 42.6% in 2018 to 39.7% in 2019. As a result, gross profit decreased from approximately RMB702.4 million for 2018 to approximately RMB678.8 million for 2019.

Gross Profit Margin before Special Inventory Provision

Mainland

	2019	2018
	RMB'000	*RMB'000*
Revenue	**1,579,954**	1,522,953
Cost of sales (excluding special inventory provision)	**(917,324)**	(870,710)
Adjusted Gross Profit[1]	**662,630**	652,243
Adjusted Gross Profit Margin[1]	**41.9%**	42.8%

1 Represents a non-HKFRS financial measure

In the second half of 2019, the Group made a special inventory provision of approximately RMB29.2 million. It is a one-time special provision made for obsolete inventory arising from discontinued brands. For 2019, the gross profit margin before special inventory provision (the "adjusted gross profit margin") is 41.9% (2018: 42.8%) for Mainland market.

Other Income

Other income, consisting mainly of government grants increased by approximately RMB8.3 million from approximately RMB6.3 million in 2018 to approximately RMB14.6 million in 2019.

Other losses, net

Other losses, net increased by approximately RMB16.3 million from approximately RMB11.8 million for 2018 to a loss of approximately RMB28.1 million for 2019. Other losses, net is mainly attributable to the net exchange loss. The increase in 2019, however, is mainly due to fair value loss on financial asset at fair value through profit or loss of approximately RMB16.5 million. The fair value loss is on our investment in 1.5% interest in equity of an unlisted company incorporated in Mainland.

Impairment loss/reversal of impairment loss on Financial Assets

The amount represent the provision made for or reversal of impairment loss on trade receivables. Provision for impairment loss on trade receivables were made for approximately RMB3.9 million in 2019 compare to reversal of impairment loss on trade receivables for approximately RMB3.1 million in 2018.

Selling and Distribution Expenses

Selling and distribution expenses decreased by 2.1% from approximately RMB671.7 million for 2018 to approximately RMB657.4 million for 2019. The decrease is mainly due to reduction on advertising and promotion cost and the adoption of HKFRS 16 "Leases" which render part of the rental expense to be accounted for as finance costs in 2019.

General and Administrative Expenses

General and administrative expenses decreased by 24.3% from approximately RMB107.7 million in 2018 to approximately RMB81.6 million in 2019. The decrease is mainly due to reduction in share based payment, staff cost, legal and professional fees, better cost control on other sundry expenses and the adoption of HKFRS 16 "Leases" which render part of the rental expense to be accounted for as finance costs in 2019.

Finance Costs

For 2019, the Group's finance costs was approximately RMB13.8 million. Such increase was mainly due to adoption of HKFRS 16 "Leases" and the interest expenses arising from the lease liabilities of approximately RMB13.4 million.

Loss for the Year

A loss of approximately RMB79.5 million was recorded for 2019 (2018: RMB84.6 million).

Adjusted EBITDA[1, 3]

Adjusted EBITDA for 2019, was approximately RMB17.7 million, improving from an adjusted EBITDA loss of approximately RMB3.8 million for 2018.

Adjusted Loss for the Year[2, 3]

Adjusted loss for the year decreased from approximately RMB47.5 million in 2018 to approximately RMB20.5 million in 2019.

Non-HKFRS Financial Measures

To supplement the consolidated results of the Group prepared in accordance with HKFRS, certain non-HKFRS financial measures, including adjusted gross profit, adjusted gross profit margin, adjusted EBITDA, adjusted loss for the year and adjusted loss margin, have been presented in this announcement. The Company's management believes that the non-HKFRS financial measures provide investors with clearer view on the Group's financial results, and with useful supplementary information to assess the performance of the Group's strategic operations by excluding certain impact of certain non-cash items (such as share based payment and net exchange loss), one-time special provision made for obsolete inventory arising from discontinued brands and fair value loss on financial asset at fair value through profit or loss. Nevertheless, the use of these non-HKFRS financial measures has limitations as an analytical tool. These unaudited non-HKFRS financial measures should be considered in addition to, not as a substitute for, analysis of the Company's financial performance prepared in accordance with HKFRS. In addition, these non-HKFRS financial measures may be defined differently from similar terms used by other companies.

1 Adjusted EBITDA means EBITDA (Earnings before interest income, finance costs, income taxes, depreciation and amortization), adjusted for share based payment, net exchange loss, special inventory provision and fair value loss on financial asset at fair value through profit or loss, prepared under a comparable basis as the prior period.

2 Adjusted (Loss)/Profit means (Loss)/Profit for the period, adjusted for share based payment, net exchange loss, special inventory provision (net of tax effect) and fair value loss on financial asset at fair value through profit or loss.

3 Represents a non-HKFRS financial measure.

Cash Conversion Cycle

Trade receivables turnover days decreased from 33 days in 2018 to 30 days in 2019. Trade payables turnover days decreased from 94 days in 2018 to 79 days in 2019. The inventory turnover days of the Group decreased from 203 days in 2018 to 197 days in 2019.

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 142 days in 2018 to 148 days in 2019.

Capital Expenditure

During the year, the Group invested approximately RMB43.1 million (2018: approximately RMB49.5 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 2019 were approximately RMB36.2 million compared to approximately RMB112.2 million as at 31 December 2018. The current ratio and quick ratio as at 31 December 2019 were 1.9 and 0.9 respectively (31 December 2018: 2.9 and 1.2 respectively).

As at 31 December 2019, the Group had aggregate banking facilities of approximately RMB118.0 million (31 December 2018: approximately RMB110.1 million) for bank loans and trade financing, of which approximately RMB81.5 million (31 December 2018: approximately RMB86.5 million) was unutilised as at the same date. These facilities are secured by corporate guarantees provided by the Company.

The Group had a loan facility from a related company of approximately RMB35.8 million (2018: Nil) of which approximately RMB13.7 million was utilised as at 31 December 2019 (2018:Nil).

Charge of Assets

As at 31 December 2019, no charges have been made on the Group's assets (31 December 2018: Nil).

Contingent Liabilities

As at 31 December 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 US Dollar, 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. Since 1 January 2019, the Group has adopted Renminbi as its presentation currency 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

The board (the "Board") of directors (the "Directors") of Kidsland International Holdings Limited ("Kidsland" or the "Company") announce the consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2019, prepared on the basis set out in Note 2 below, together with the comparative figures for the year ended 31 December 2018, as follows.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	**Year ended 31 December 2019** *RMB'000*	Year ended 31 December 2018 *RMB'000* (re-presented) *(note 2.1.1)*
Revenue	3	**1,710,041**	1,650,108
Cost of sales	6	**(1,031,241)**	(947,754)
Gross profit		**678,800**	702,354
Other income	4	**14,564**	6,260
Other losses, net	5	**(28,086)**	(11,826)
(Impairment loss)/reversal of impairment loss on financial assets	6	**(3,850)**	3,127
Selling and distribution expenses	6	**(657,437)**	(671,665)
General and administrative expenses	6	**(81,569)**	(107,690)
Operating loss		**(77,578)**	(79,440)
Finance costs	7	**(13,811)**	–
Loss before income tax		**(91,389)**	(79,440)
Income tax credit/(expense)	8	**11,907**	(5,116)
Loss for the year		**(79,482)**	(84,556)
Other comprehensive income, net of tax			
Item that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of foreign operations		**5,971**	15,777
Total comprehensive loss for the year		**(73,511)**	(68,779)
(Loss)/profit for the year attributable to:			
– owners of the Company		**(82,208)**	(82,377)
– non-controlling interest		**2,726**	(2,179)
		(79,482)	(84,556)

	Note	**Year ended 31 December 2019** *RMB'000*	Year ended 31 December 2018 *RMB'000* (re-presented) *(note 2.1.1)*
Total comprehensive (loss)/income for the year attributable to:			
– owners of the Company		**(76,104)**	(66,318)
– non-controlling interest		**2,593**	(2,461)
		(73,511)	(68,779)
Loss per share, basic and diluted *(RMB cents)*	9	**(10.28)**	(10.30)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	**As at 31 December 2019** *RMB'000*	As at 31 December 2018 *RMB'000* (re-presented) *(note 2.1.1)*	As at 1 January 2018 *RMB'000* (re-presented) *(note 2.1.1)*
ASSETS				
Non-current assets				
Property, plant and equipment		**58,377**	61,670	49,547
Right-of-use assets		**183,835**	–	–
Intangible asset		**9,882**	10,174	–
Deposit paid for acquisition of property, plant and equipment		**–**	201	–
Rental deposits		**24,734**	27,377	20,830
Deferred tax assets		**24,838**	8,743	10,056
		301,666	108,165	80,433
Current assets				
Inventories		**576,375**	538,088	516,327
Trade receivables	11	**134,190**	149,621	152,579
Other receivables, deposits and prepayments		**132,981**	105,808	103,710
Right of return assets		**3,271**	609	–
Tax recoverable		**190**	827	–
Financial asset at fair value through profit or loss ("FVTPL")		**–**	16,468	–
Restricted cash		**5,500**	–	–
Bank balances and cash		**30,685**	112,246	260,527
		883,192	923,667	1,033,143

	Note	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000 (re-presented) (note 2.1.1)	As at 1 January 2018 RMB'000 (re-presented) (note 2.1.1)
EQUITY				
Owners of the Company				
Share capital		**6,931**	6,931	6,931
Reserves		**614,305**	685,164	741,664
		621,236	692,095	748,595
Non-controlling interest		**11,041**	8,448	10,909
Total equity		**632,277**	700,543	759,504
LIABILITIES				
Non-current liabilities				
Provision for reinstatement costs		**6,687**	8,161	10,089
Lease liabilities		**91,189**	–	–
		97,876	8,161	10,089
Current liabilities				
Trade payables	12	**214,444**	233,265	253,374
Other payables and accruals		**81,386**	67,715	84,560
Loan from a related company		**13,695**	–	–
Lease liabilities		**101,458**	–	–
Contract liabilities		**35,752**	16,212	–
Current tax liabilities		**7,970**	5,936	6,049
		454,705	323,128	343,983
Net current assets		**428,487**	600,539	689,160
Total assets less current liabilities		**730,153**	708,704	769,593
Net assets		**632,277**	700,543	759,504

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

Kidsland International Holdings Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in trading and sale of toys and infant products. The Group mainly operates in Mainland China (the "PRC") and Hong Kong.

The Company is a limited liability company incorporated 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 is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

As stated in Note 2.1.1, these consolidated financial information are presented in Renminbi ("RMB").

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountant ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared on the historical cost basis except for the financial asset at FVTPL which is measured at fair value.

2.1.1 Change in presentation currency

During the year, the Group has changed its presentation currency from Hong Kong dollars ("HK$") to RMB for the preparation of its consolidated financial statements. Having considered the principal activities of the Group are mainly conducted in the People's Republic of China ("PRC") where the functional currencies of those subsidiaries in the PRC are 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 statements.

Change in presentation currency has been accounted for retrospectively in accordance with HKAS 8 "Accounting policies, change in accounting estimates and errors". Net profit, comprehensive income, total assets and total equity are unaffected by these presentational changes apart from the translation from HK$ to RMB as further detailed below.

Following the change in presentation currency, the financial information as previously reported has been re-translated in accordance with the provisions in HKAS 21 using the procedures outlined below, as if RMB had always been the Group's presentational currency:

- Assets and liabilities of foreign operations where the functional currency is not RMB have been translated into RMB at the relevant closing rates of exchange. Profit and loss items were translated into RMB at the relevant average rates of exchange. Differences arising from the retranslation of the opening net assets and the results for the year are recognised in the foreign currency translation reserve; and

- Share capital, share premium and other reserves were translated at historical rates prevailing at the dates of transactions.

In addition to the comparative information in respect of the previous period provided in these consolidated financial statements, the Group presents an additional statement of financial position as at 1 January 2018 due to the change of presentation currency in accordance with HKAS 1 "Presentation of Financial Statements".

2.2 Principal accounting policies

The preparation requires the use of certain critical accounting estimates and also requires management to exercise its judgement in the process of applying the Group's accounting policies.

(a) New and amended standards and interpretation adopted by the Group

The Group has adopted the following new and amended standards and interpretation that have been issued and effective for the Group's financial year beginning on or after 1 January 2019:

Annual Improvements Project (Amendments)	Annual Improvements 2015–2017 Cycle
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement
HKAS 28 (Amendments)	Long-term Interest in Associates and Joint Ventures
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation
HKFRS 16	Leases
HK(IFRIC)-Int 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. Refer to Note 2.3 below in relation to the adoption of HKFRS 16. The adoption of other new and amended standards did not have any material impact on the current period or any prior periods.

(b) 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
HKFRS 3 (Amendments)	Definition of a Business	1 January 2020
HKAS 1 and HKAS 8 (Amendments)	Definition of Material	1 January 2020
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Hedge accounting	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group will adopt the new standards, new interpretations and amended standards when they become effective. The Group has already commenced an assessment of the related impact of adopting the above new standards, amended standards and new interpretations, none of which is expected to have a significant effect on the consolidated financial statements of the Group.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

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

The Group leases various offices, warehouses and retail stores. 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.

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. The weighted average discount rate applied to the lease liabilities on 1 January 2019 was 6.5%.

Consignment counters are not regarded as in scope of HKFRS 16 due to landlord's substantive substitution rights in the underlying assets.

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 (re-presented) *(Note 2.1.1)*	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	45,164
Non-current lease liabilities	119,235
	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 1 January 2019
	RMB'000
Leased premises	163,244

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

Consolidated statement of financial position (extract)	**At 31 December 2018 as re-presented** *RMB'000* *(Note 2.1.1)*	**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 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

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; and
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

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 HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease".

3 REVENUE AND SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the executive directors of the Company, the chief operating decision maker (the "CODM"), that are used to make strategic decisions. The Group's operating segments are classified as (i) sales of 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.

The executive directors assess the performance of the operating segments based on a measure of reportable segment profit/(loss). This measurement basis excludes other income, other losses, net, finance costs, and unallocated income and expenses.

Segment assets mainly exclude deferred tax assets and other assets that are managed on a central basis.

Segment liabilities mainly exclude current tax liabilities, loan from a related company and other liabilities that are managed on a central basis.

In respect of geographical segment reporting, sales are based on the country in which the customer is located, and total assets and capital expenditure are based on the country where the assets are located.

(a) The following is an analysis of the Group's segment information provided to the executive directors for the reportable segments for the year ended 31 December 2019:

	Sales of toys *RMB'000*	**Sales of infant products** *RMB'000*	**Total** *RMB'000*
Revenue from external customers	**1,635,616**	**74,425**	**1,710,041**
Reportable segment profit	**601,719**	**21,651**	**623,370**
Unallocated income			**14,564**
Unallocated expenses			**(538,334)**
Unallocated impairment loss on financial asset			**(3,850)**
Unallocated fair value loss on financial asset at fair value through profit or loss ("FVTPL")			**(16,549)**
Unallocated other losses, net			**(11,537)**
Depreciation and amortisation			**(159,053)**
Loss before income tax			**(91,389)**
Income tax credit			**11,907**
Loss for the year			**(79,482)**

(b) The following is an analysis of the Group's segment information provided to the executive directors for the reportable segments for the year ended 31 December 2018:

	Sales of toys *RMB'000*	Sales of infant products *RMB'000*	Total *RMB'000*
(Re-presented) *(Note 2.1.1)*			
Revenue from external customers	1,567,069	83,039	1,650,108
Reportable segment profit	629,379	34,217	663,596
Unallocated income			6,260
Unallocated expenses			(701,411)
Unallocated reversal of impairment loss on financial asset			3,127
Unallocated other losses, net			(11,826)
Depreciation and amortisation			(39,186)
Loss before income tax			(79,440)
Income tax expense			(5,116)
Loss for the year			(84,556)

(c) The following is an analysis of the Group's assets and liabilities as at 31 December 2019 by reportable segment:

	Sales of toys ***RMB'000***	**Sales of infant products** ***RMB'000***	**Total** ***RMB'000***
Segment assets	**527,865**	**48,510**	**576,375**
Deferred tax assets			**24,838**
Unallocated assets			**583,645**
Total assets per consolidated statement of financial position			**1,184,858**
Segment liabilities	**206,418**	**8,026**	**214,444**
Current tax liabilities			**7,970**
Loan from a related company			**13,695**
Unallocated liabilities			**316,472**
Total liabilities per consolidated statement of financial position			**552,581**
Additions to non-current assets	**186,388**	**–**	**190,524**

(d) The following is an analysis of the Group's assets and liabilities as at 31 December 2018 by reportable segment:

	Sales of toys *RMB'000*	Sales of infant products *RMB'000*	Total *RMB'000*
(Re-presented) *(Note 2.1.1)*			
Segment assets	460,654	77,434	538,088
Deferred tax assets			8,743
Unallocated assets			485,001
Total assets per consolidated statement of financial position			1,031,832
Segment liabilities	221,301	11,964	233,265
Current tax liabilities			5,936
Unallocated liabilities			92,088
Total liabilities per consolidated statement of financial position			331,289
Additions to non-current assets	**59,339**	**–**	**59,339**

(e) The Group has recognised the following assets and liabilities related to contracts with customers:

	2019 ***RMB'000***	2018 *RMB'000* (re-presented) *(note 2.1.1)*
Current assets		
Right of return assets	3,271	609
Current contract liabilities		
– Receipts in advance	30,495	14,297
– Customer loyalty programme	1,301	1,172
– Liability arising from expected sales return	3,956	743
Total	35,752	16,212

Where a customer has a right to return a product within a given period, the Group recognises a liability arising from expected sales return of RMB3,956,000 (2018: RMB743,000) for the amount of consideration received for which the entity does not expect to be entitled. The Group also recognises a right to the returned goods of RMB3,271,000 (2018: RMB609,000) measured by reference to the former carrying amount of the goods. The costs to recover the products are not material because the customers usually return them in a saleable condition.

	Year ended 31 December	
	2019 ***RMB'000***	2018 *RMB'000* (re-presented) *(note 2.1.1)*
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	**16,212**	20,656

(f) 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:

	2019	2018
	RMB'000	*RMB'000*
		(re-presented)
		(note 2.1.1)
Self-operated retail channels		
– Retail stores	**656,550**	618,018
– Consignment counters	**474,918**	519,704
– Online stores	**91,167**	83,734
Wholesale channels		
– Distributors	**378,927**	322,526
– Hypermarket and supermarket chains	**25,324**	33,392
– Online key accounts	**83,155**	72,734
	1,710,041	1,650,108

(g) The following is an analysis of revenue from external customers by geographical segment:

	2019	2018
	RMB'000	*RMB'000*
		(re-presented)
		(note 2.1.1)
Mainland China	**1,579,954**	1,522,953
Hong Kong	**130,087**	127,155
Total	**1,710,041**	1,650,108

For the years ended 31 December 2019 and 2018, there was no transaction with a single external customer that amounted to 10% or more of the Group's revenue.

(h) The total of non-current assets other than deferred tax assets, broken down by location of the assets, is shown in the following:

	2019 *RMB'000*	2018 *RMB'000* (re-presented) *(note 2.1.1)*
Mainland China	**242,213**	72,644
Hong Kong	**34,615**	26,778
Total	**276,828**	99,422

4 OTHER INCOME

	2019 *RMB'000*	2018 *RMB'000* (re-presented) *(note 2.1.1)*
Interest income	**331**	597
Government grants *(note)*	**10,035**	3,900
Sundry income	**4,198**	1,763
	14,564	6,260

Note: The Group recognises government grants from certain municipal governments and authorities of economic development zones. These grants are mainly in the form of refund whereby the amount is based on a percentage of taxes paid during the year. There are no unfulfilled condition.

5 OTHER LOSSES, NET

	2019 *RMB'000*	2018 *RMB'000* (re-presented) *(note 2.1.1)*
Net exchange loss	**(10,668)**	(12,755)
Loss on disposal of property, plant and equipment	**(231)**	(6)
Fair value loss on financial asset at fair value through profit or loss ("FVTPL")	**(16,549)**	–
Reversal of provision for reinstatement costs	**–**	1,866
Others	**(638)**	(931)
	(28,086)	(11,826)

6 EXPENSES BY NATURE

Expenses included in cost of sales, impairment loss/(reversal of impairment loss) on financial assets, selling and distribution expenses, and general and administrative expenses are analysed as follows:

	2019	2018
	RMB'000	*RMB'000*
		(re-presented)
		(note 2.1.1)
Auditors' remuneration		
– Audit services	**2,245**	1,967
– Non-audit services	**58**	1,957
Amortisation of intangible asset	**511**	–
Depreciation of property, plant and equipment	**38,730**	39,186
Depreciation of right-of-use assets	**119,812**	–
Cost of inventories	**976,324**	935,411
Rental expense in respect of		
– variable leases payments	**12,665**	–
– short term leases	**27,096**	–
– other rental expenses	**–**	159,482
Advertising and promotional expenses	**34,822**	59,384
Concessionaire fees	**147,700**	161,730
Employee benefit expenses (including directors' emoluments)	**118,254**	147,854
Outsourced personal service fee	**126,565**	116,471
Provision for/(reversal of) impairment loss on trade receivables	**3,850**	(3,127)
Provision for /(reversal of) impairment loss on inventories, net (included in cost of sales)	**32,452**	(1,786)
Impairment loss on property, plant and equipment *(Note)*	**1,984**	–
Impairment loss on right-of-use assets *(Note)*	**3,203**	–
Transportation	**19,833**	22,355
Building management fee	**31,929**	27,819

Note: The Group determines each individual retail store as a separately identifiable cash-generating unit ("CGU") and monitors their financial performance. A provision for impairment of the Group's property, plant and equipment and right-of-use assets of RMB1,984,000 and RMB3,203,000 respectively for the year ended 31 December 2019 (2018: Nil) was made based on impairment assessment carried out for the retail store assets which have an impairment indicator, the recoverable amounts are based on value-in-use calculations. These calculations used projected cash flows and key assumptions such as future revenue growth rate and gross margin percentage of individual CGUs based on the Group's annual budget covering an average of 2-year period. A discount rate of 10.78% applied to bring the future cash flows back to their present values. The impairment loss on property, plant and equipment and right-of-use assets is attributable to sales of toys.

7 FINANCE COSTS

	2019	2018
	RMB'000	*RMB'000*
		(re-presented)
		(note 2.1.1)
Interest expenses on loan from a related company	**385**	–
Interest expenses for lease liabilities	**13,426**	–
	13,811	–

8 INCOME TAX (CREDIT)/EXPENSE

The amount of income tax (credited)/charged to the consolidated statement of profit or loss and other comprehensive income represents:

	2019	2018
	RMB'000	*RMB'000*
		(re-presented)
		(note 2.1.1)
Current income tax		
– Hong Kong profits tax	**975**	1,857
– PRC corporate income tax	**2,000**	1,993
	2,975	3,850
Over-provision in prior years		
– Hong Kong profits tax	**(36)**	(60)
– PRC corporate income tax	**(776)**	–
	(812)	(60)
Deferred tax	**(14,070)**	1,326
	(11,907)	5,116

The Group is subject to income tax on an entity basis in profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operated.

PRC corporate income tax is provided on the profits of the Group's subsidiaries in the PRC at 25% (2018: 25%). The applicable rate of Hong Kong profits tax is 16.5% (2018: 16.5%).

9 LOSSES PER SHARE

Basic

Basic losses per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2019	2018
		(re-presented)
		(note 2.1.1)
Loss attributable to owners of the Company *(RMB'000)*	**(82,208)**	(82,377)
Weighted average number of ordinary shares in issue *('000)*	**800,000**	800,000
Basic losses per share *(RMB cents)*	**(10.28)**	(10.30)

Diluted

For the years ended 31 December 2019 and 2018, diluted losses per share equals basic losses per share as exercise of the outstanding share options would have an anti-dilutive effect which results in a reduction in loss per share for the years ended 31 December 2019 and 31 December 2018.

10 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.

11 TRADE RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
		(re-presented)
		(note 2.1.1)
Trade receivables from contracts with customers	**144,488**	156,114
Provision for impairment	**(10,298)**	(6,493)
	134,190	149,621

The Group's retail revenue through self-operated retail stores 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. The Group's internet sales are transacted through electronic payment platforms which are settled immediately. The Group's concessionaire revenue through department stores are generally collected by the department stores from the ultimate customers and then pay the balance after deducting the concessionaire fee to the Group. The credit period granted to department stores ranges from 30 days to 180 days. .

The Group requires most of its distributors to pay in advance, while offer credit terms of 15 days to 60 days to hypermarket and supermarket chains.

The carrying amounts of trade receivables approximate their fair values. There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers.

The ageing analysis of trade receivables as at the end of the reporting period, and net of provision, based on invoice date is as follows:

	2019	2018
	RMB'000	*RMB'000*
		(re-presented)
		(note 2.1.1)
Within 30 days	**108,098**	119,456
31 to 60 days	**8,373**	19,410
61 to 90 days	**3,108**	3,857
91 to 180 days	**12,250**	6,898
Over 180 days	**2,361**	–
	134,190	149,621

12 TRADE PAYABLES

The credit periods granted by suppliers are generally ranged from 60 to 90 days. The ageing analysis of the trade payables at the end of reporting period, based on invoice date is as follows:

	2019	2018
	RMB'000	*RMB'000*
		(re-presented)
		(note 2.1.1)
Within 30 days	**125,747**	127,709
31 to 60 days	**54,997**	77,553
61 to 90 days	**13,933**	23,776
Over 90 days	**19,767**	4,227
	214,444	233,265

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

On 10 November 2017 ("Listing Date"), the Company, in connection with its initial public offering (the "IPO"), issued 200,000,000 ordinary shares with HK$0.01 nominal values. Net proceeds after deducting underwriting commission and other IPO expenses amounted to approximately HK$288.3 million.

As stated in the prospectus dated 31 October 2017 ("Prospectus"), the Company intended to use the proceeds to (i) expand the Group's retail network in the Mainland and Hong Kong; (ii) strengthen the Group's capabilities in product development for the Group's existing brands or new 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 31 December 2019 is set out below:

	Use of proceeds as stated in the Prospectus (amount adjusted per final offer price)	Actual use of proceeds as at 31 December 2019	Unused proceeds as at 31 December 2019	Further information
	HK$ millions	*HK$ millions*	*HK$ millions*	
Expand the Group's retail network in the Mainland and Hong Kong				
– Opening flagship toy stores in the Mainland	60.5	60.5	–	A new flagship store in Beijing was under development and renovation since August 2018 and opened in May 2019. The full amount has been utilised as intended.
– Opening Kidsland and Babyland stores in the Mainland	46.1	46.1	–	22 new stores were opened in 2019. The full amount has been utilised as intended.
– Opening LEGO Certified Stores in the Mainland and Hong Kong	34.6	34.6	–	5 LCS stores opened in the Mainland in 2019. The full amount has been utilised as intended.
– 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	–	The full amount has been utilised as intended.
Strengthen the Group's product development capabilities	51.9	51.9	–	The Group purchased a brand name and invested in other product development areas in 2018. The full amount has been utilised as intended.
Develop experience centres and associated products	31.7	18.2	13.5	The first experience centre was opened in 2018. The second experience centre, operated as a franchise store, is planned to open in 2020. The remaining amount is planned to be utilised as intended.
Working capital and other general corporate purpose	28.9	28.9	–	The full amount has been utilised as intended.
	288.3	274.8	13.5	

As of the date of this announcement, the amount of proceeds not yet utilised is approximately HK$13.5 million. The Company has used and/or intends to use unused proceeds in the same manner as disclosed in the Prospectus.

ANNUAL GENERAL MEETING

The Company's annual general meeting will be held on Wednesday, 10 June 2020 (the "2020 AGM"). A notice convening the 2020 AGM, along with other relevant documents, will be published and dispatched to the shareholders of the Company in accordance with the requirements of the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS FOR THE 2020 AGM AND DIVIDEND

The Company will close its Register of Members from Friday, 5 June 2020 until Wednesday, 10 June 2020 to count and fix the number of attendees and voters that shall be present at the 2020 AGM. New shareholders that wish to attend and vote at the 2020 AGM should, therefore, register their share transfer(s) and provide their share certificates before 4:30 p.m. on Thursday, 4 June 2020 to the Company's share register, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

The Board does not recommend the payment of any dividend for the year ended 31 December 2019 (2018: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the year ended to 31 December 2019.

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITION AND DISPOSAL

During 2019, 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 2019, the Group had approximately 2,100 employees (including both self-employed and outsourced employees) (2018: approximately 2,300 employees) in the PRC and Hong Kong. Total remuneration for self-employed and outsourced employees for the year ended 31 December 2019 amounted to approximately RMB118.3 million and RMB126.6 million respectively (2018: approximately RMB147.9 million and RMB116.5 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.

EVENTS AFTER THE REPORTING PERIOD

Since January 2020, China and Hong Kong have reported numerous confirmed cases of Coronavirus Disease 2019 ("COVID-19") which affected the usual business environment of the regions we operate as a whole. A series of precautionary and control measures have been and continued to be implemented across the Mainland, including extension of the Chinese New Year holiday nationwide, postponement of work resumption after the Chinese New Year holiday in some regions, certain level of restrictions and controls over the travelling of people and traffic arrangements, quarantine of certain residents, implementation of heightened hygiene and epidemic prevention requirements in factories and offices and encouraged social distancing.

In light of the negative impact brought by COVID-19 outbreak, we are in active negotiation with its landlord on possible rent concession for its leased retail stores. Certain landlords have offered different extents of rent concession, including rent-free periods or long-term rent reductions. In addition, we are in the process of considering to adjust its overall business strategy, including product mix, geographical mix, etc. Such effect could affect our financial performance in the year ending 31 December 2020 and beyond, depending on the form of rent concession.

Further, in preparing this set of consolidated financial statements, we determined the recoverable amount of our cash-generating units based on the present value of future cash flows under the conditions as of 31 December 2019. In the impairment testing to be performed for the year ending 31 December 2020, COVID-19 outbreak and its impact on the present value of estimated future cash flows of the cash-generating units will need to be considered. The outbreak of COVID-19 could also affect the subsequent sales return and subsequent settlement of trade receivables.

Pending development of this non-adjusting subsequent event, our financial results may be affected, the extent of which could not be estimated as of the date of this report.

CORPORATE GOVERNANCE PRACTICES

We have adopted and applied the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code on corporate governance and, to the best knowledge of the Directors, we have complied with all the code provisions as set out in the CG Code for the year ended 31 December 2019 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

We have adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as the guidelines for the Directors' dealings in the securities of the Company. Following specific enquiries to each of the Directors, all the Directors have confirmed their compliance with the required standards set out in the Model Code throughout the year ended 31 December 2019.

AUDIT COMMITTEE

The Board has established an audit committee (the "Audit Committee") with written terms of reference in compliance with the CG Code. The terms of reference of the Audit Committee can be located on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (http://www.kidslandholdings.com/).

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

REVIEW OF ANNUAL RESULTS

The Audit Committee has reviewed, and has agreed with the auditor of the Company, on the annual results of the Group for the year ended 31 December 2019.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

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 2019 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers 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 PricewaterhouseCoopers on the preliminary announcement.

PUBLICATION OF THE RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The results announcement for the year ended 31 December 2019 is published on the website of the Company (www.kidslandholdings.com) and the Stock Exchange (www.hkexnews.hk). The Company's 2019 annual report will be dispatched to the shareholders of the Company and made available on the above websites in due course.

PROSPECTS

Our company is marching into our 20th anniversary in 2021. We have seen the ups and downs in the market. We have experienced the turbulence during SARS back in 2003. The experience and insight gained throughout our corporate history give us confidence and foresight that we can grow stronger and better, coming out of the current storm. All the pressure we sustain can only give us more motivation and focus to accelerate our change.

To put belief into action, we are now preparing to open our fifth Lego Certified Store in Hong Kong and other exciting projects to move ourselves up and forward. We would continue to upgrade our retail and omni channel experience offered to customers and be more targeted and systematic in expanding our wholesale network. We are finalising our new corporate brand platform and store image. The new corporate logo adopted today is a cornerstone of the exercise. We will execute an array of strategies that refresh and re-engerise our kidsland brand awareness and presence. Digitalization of our whole organisation and customer journey, end-to-end, is also an increasingly important driving force in spearheading our transformation. All of these directions would be supported by our continuous prudent financial management, with a laser focus on cashflow, inventory and profitability management.

With the outbreak of COVID-19, we are adjusting our strategic priority and crafting our execution plan to reflect the impact from this pandemic on the market. Allow us to update you with more details in our upcoming annual report.

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

Hong Kong, 31 March 2020

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, Mr. Cheng Yuk Wo, Mr. Huang Lester Garson, and Dr. Lam Lee G.