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 2020

HIGHLIGHTS

- The Group recorded a 24.6% decline in revenue from approximately RMB850.0 million in the Prior Period to approximately RMB641.2 million in the Reporting Period.
    - Revenue from self-operated retail channels dropped by 19.4% to approximately RMB502.3 million, as the Group's retail business was significantly impacted by the outbreak of COVID-19 during the Reporting Period.
    - Revenue from wholesale channels declined by 38.7% to approximately RMB138.9 million, as the recovery of sales from the impact of COVID-19 from the wholesale channels take a longer time than the recovery in self-operated retail channels.
    - Revenue from our online stores rose by 5.9% to approximately RMB49.2 million.
    - Revenue from Hong Kong business stayed resilient at approximately RMB66.3 million, as compared to RMB65.5 million in the Prior Period.
- Gross profit in the Reporting Period was approximately RMB214.4 million and gross profit margin decreased from 42.5% in the Prior Period to 33.4% in the Reporting Period. If non-cash inventory provision of approximately RMB31.1 million was excluded, adjusted gross profit margin in the Reporting Period would have been 38.3%.
- A loss of approximately RMB135.6 million was recorded in the Reporting Period. If non-cash impairment provision of inventory, property, plant and equipment, and right-of-use assets amounting to approximately RMB51.4 million were excluded, adjusted loss of the Group in the Reporting Period would have been approximately RMB84.2 million.

- With intensified expense and product procurement management, we managed to increase our cash position from RMB36.2 million as of 31 December 2019 to RMB117.8 million as of 30 June 2020 and reduced our inventory from RMB576.4 million as of 31 December 2019 to RMB473.9 million as of 30 June 2020.

- We stay focused on executing our turnaround plan and many workstreams under the digitalization and customer-centric strategic blueprint as set out in our 2019 annual report. For example, our first flagship Kidsland store under the new image and brand platform was launched in Beijing on 28 August 2020. On 29 April 2020, we opened our fifth LEGO Certified Store in Hong Kong and saw satisfactory results. On 3 August 2020, we launched LEGO Certified Online Store (https://LEGO.kidslandgroup.com) in Hong Kong, offering the most diversified and comprehensive LEGO product range in Asia Pacific. This signified another important milestone of our efforts in online and offline integration of the customer journey.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The outbreak of the novel coronavirus disease 2019 (the "**COVID-19**") has taken its toll on our operations and hence financial results of Kidsland International Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the six months ended 30 June 2020 (the "**Reporting Period**"). We have taken immediate and emphatic measures to strengthen our cash management by intensifying our expense and product procurement measurements. We have also continuously optimised our retail network in Mainland China and renegotiating and exiting loss-making retail locations. However, the benefits from such measures were not quick and sufficient enough to offset the full strength of adverse impact caused by the decline in sales and gross profit margin brought by the COVID-19. As a result, a loss of approximately RMB135.6 million was recorded in the Reporting Period.

However, despite the considerable decline in the Group's revenue and profitability, we managed to increase our cash position from RMB36.2 million as of 31 December 2019 to RMB117.8 million as of 30 June 2020 and reduced our inventory from RMB576.4 million as of 31 December 2019 to RMB473.9 million as of 30 June 2020.

Meanwhile, we stay focused on executing our turnaround plan and many workstreams under the digitalization and customer-centric strategic blueprint as set out in our 2019 annual report. For example, our first flagship Kidsland store under the new image and brand platform was launched in Beijing on 28 August 2020. On 29 April 2020, we opened our fifth LEGO Certified Store in Hong Kong and saw satisfactory results. On 3 August 2020, we launched LEGO Certified Online Store (https://LEGO.kidslandgroup.com) in Hong Kong, offering the most diversified and comprehensive LEGO product range in Asia Pacific. This signified another important milestone of our efforts in online and offline integration of the customer journey.

RETAIL AND WHOLESALE BUSINESS

Our extensive distribution network comprises self-operated retail channels and wholesale channels. As of 30 June 2020, this network comprised:

Self-operated Retail Channels

– 717 self-operated retail points of sale consisting of retail shops and consignment counters (30 June 2019: 750)

– 22 online stores (30 June 2019: 20)

Wholesale Channels

– 638 distributors (30 June 2019: 849) who onsell our products through third party retailers or at their own retail shops, the number of which amounted to over 2,600 (30 June 2019: over 3,400)

– 16 hypermarket and supermarket chains (30 June 2019: 16)

– 5 online key accounts (30 June 2019: 7)

Detailed breakdowns of our distribution network are set out below:

1. Self-operated Retail Channels

1.1 Retail Shops

During the Reporting Period, we continued to optimise our store network.

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

	Six months ended 30 June	
	2020	2019
Retail shops		
At the beginning of the period	**239**	257
Addition of new retail shops	**3**	10
Closure of retail shops	**(24)**	(21)
At the end of the period	**218**	246

1.2 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 the Reporting Period, we continued to open new consignment 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 the periods indicated are shown below:

	Six months ended 30 June	
	2020	2019
Consignment counters		
At the beginning of the period	**505**	519
Addition of new consignment counters	**17**	17
Closure of consignment counters	**(23)**	(32)
At the end of the period	**499**	504

1.3 Online stores

During the Reporting Period, we launched 3 and closed 1 flagship stores of brands that we represented on third-party-operated online platforms such as Tmall, JD.com and Kaola. As of 30 June 2020, we had 22 online stores in total, compared with 20 as of 30 June 2019.

2. Wholesale Channels

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

2.1 Distributors

As of 30 June 2020, we had 638 distributors (30 June 2019: 849), who onsell our products through third party retailers or at their own retail shops, which totaled to more than 2,600 (30 June 2019: more than 3,400) in Mainland China.

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

	Six months ended 30 June	
	2020	2019
Distributors		
At the beginning of the period	**697**	931
Addition of new distributors	**38**	88
Expiry without renewal of distribution agreements	**(97)**	(170)
At the end of the period	**638**	849

2.2 *Hypermarket and Supermarket Chains*

As of 30 June 2020, we had wholesale arrangements with 16 hypermarket and supermarket chains (30 June 2019: 16) with a sum of 689 retail points (30 June 2019: 689) in Tier 1, 2 and 3 cities in Mainland China (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	
	2020	2019
Hypermarket and supermarket chains		
At the beginning of the period	**16**	16
Addition/termination of hypermarket and supermarket chains	**–**	–
At the end of the period	**16**	16

2.3 *Online Key Accounts*

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

	Six months ended 30 June	
	2020	2019
Online key accounts		
At the beginning of the period	**5**	7
Addition/termination of online key accounts	**–**	–
At the end of the period	**5**	7

FINANCIAL REVIEW

Revenue

During the Reporting Period, the revenue of the Group decreased by 24.6% from approximately RMB850.0 million in the six months ended 30 June 2019 (the "**Prior Period**") to approximately RMB641.2 million.

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

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Self-operated retail channels		
– Retail shops	**267,994**	331,045
– Consignment counters	**185,055**	245,999
– Online stores	**49,211**	46,453
Sub-total:	**502,260**	623,497
Wholesale channels		
– Distributors	**109,449**	179,581
– Hypermarket and supermarket chains	**9,587**	12,673
– Online key accounts	**19,893**	34,213
Sub-total:	**138,929**	226,467
Total:	**641,189**	849,964

Self-operated Retail Channels

The self-operated retail channels recorded a decrease in revenue of 19.4% to approximately RMB502.3 million during the Reporting Period. Despite the drop in retail shops revenue by 19.0% to approximately RMB268.0 million and the drop in consignment counters revenue by 24.8% to approximately RMB185.1 million, revenue from our online stores rose by 5.9% to approximately RMB49.2 million.

Wholesale channels

For the Reporting Period, revenue contributed by wholesale channels declined by 38.7% to approximately RMB138.9 million, as the recovery of sales from the impact of COVID-19 from the wholesale channels take a longer time than the recovery in self-operated retail channels.

Revenue from distributors, hypermarket and supermarket chains, and online key accounts dropped by 39.1% to approximately RMB109.4 million, 24.4% to approximately RMB9.6 million and 41.9% to approximately RMB19.9 million, respectively.

Combining revenue from online stores and online key accounts, our total revenue through e-commerce totaled approximately RMB69.1 million, or 10.8% of our total revenue during the Reporting Period (9.5% in the Prior Period).

Cost of Sales, Gross Profit and Gross Profit Margin

Cost of sales decreased by 12.6% from approximately RMB488.5 million in the Prior Period to approximately RMB426.8 million in the Reporting Period. The drop was consistent with the decrease in revenue volume, partially offset by non-cash inventory provision of approximately RMB31.1 million. The Group's gross profit margin decreased from 42.5% in the Prior Period to 33.4% for the Reporting Period. Excluding non-cash inventory provision, the Group's adjusted gross profit margin for the Reporting Period would have been 38.3%. Gross profit declined from approximately RMB361.5 million in the Prior Period to approximately RMB214.4 million in the Reporting Period.

Other Income

Other income, consisting mainly of promotion income from brand owners and government grants, dropped by approximately RMB9.8 million from approximately RMB13.8 million in the Prior Period to approximately RMB4.0 million in the Reporting Period.

Other Losses, Net

Other losses, net rose by approximately RMB5.7 million from approximately RMB1.4 million in the Prior Period to approximately RMB7.1 million in the Reporting Period. Other losses, net was mainly attributable to net exchange loss.

Impairment Loss/Reversal of Impairment Loss on Financial Assets

The amount represented provision made for or reversal of impairment loss on trade receivables. Provision for impairment loss on trade receivables was made for approximately RMB1.5 million in the Reporting Period, compared to reversal of impairment loss of RMB2.1 million in the Prior Period.

Selling and Distribution Expenses

Selling and distribution expenses decreased by 5.3% from approximately RMB328.2 million in the Prior Period to approximately RMB310.7 million in the Reporting Period. The Group intensified its expense management and hence attributed to the decline in selling and distribution expenses, although such decline was partially offset by non-cash impairment provision of property, plant and equipment, and right-of-use assets amounting to RMB20.3 million. Excluding the non-cash impairment provision of property, plant and equipment, and right-of-use assets, selling and distribution expenses would have decreased by 11.5% in the Reporting Period.

General and Administrative Expenses

General and administrative expenses decreased by 24.8% from approximately RMB40.0 million in the Prior Period to approximately RMB30.1 million in the Reporting Period. The drop was mainly attributable to reduction in share-based payments and staff costs, and better cost control on other sundry expenses.

Finance Costs

Finance costs, consisting mainly of interest expenses arising from lease liabilities, dropped by approximately RMB1.5 million from approximately RMB7.5 million in the Prior Period to approximately RMB6.0 million in the Reporting Period.

Loss for the Period

A loss of approximately RMB135.6 million was recorded in the Reporting Period (Prior Period: loss of approximately RMB1.9 million).

If non-cash impairment provision of inventory, property, plant and equipment, and right-of-use assets amounting to approximately RMB51.4 million were excluded, loss of the Group would have been approximately RMB84.2 million in the Reporting Period.

Inventory as well as Trade Receivables and Payables Turnover Days

Inventory turnover days increased from 211 days in the Prior Period to 224 days in the Reporting Period. Trade receivables turnover days increased from 32 days in the Prior Period to 35 days in the Reporting Period. Trade payables turnover days decreased from 94 days in the Prior Period to 86 days in the Reporting Period.

Cash Conversion Cycle

The cash conversion cycle is a metric that shows the amount of time it takes a company to convert its investment in inventory to cash, which equals to inventory turnover days plus trade receivables turnover days minus trade payables turnover days. The cash conversion cycle of the Group increased from 149 days in the Prior Period to 173 days in the Reporting Period.

With intensified product procurement management over the Reporting Period, we managed to substantially reduced our inventory from RMB576.4 million as of 31 December 2019 to RMB473.9 million as of 30 June 2020.

Capital Expenditure

During the Reporting Period, the Group invested approximately RMB24.7 million in property, plant, and equipment, mainly to renovate existing shops (Prior Period: approximately RMB28.9 million).

Liquidity and Financial Resources

The Group's cash position as of 30 June 2020 was approximately RMB117.8 million compared to approximately RMB36.2 million as of 31 December 2019. The current ratio and quick ratio as of 30 June 2020 were 1.7 and 0.9, respectively (31 December 2019: 1.9 and 0.9, respectively).

As of 30 June 2020, the Group had aggregate banking facilities of approximately RMB113.8 million (31 December 2019: approximately RMB118.0 million) for bank loans and trade financing, of which approximately RMB75.4 million (31 December 2019: approximately RMB81.5 million) was unutilised as of the same date. These facilities are secured by corporate guarantees provided by the Company.

As of 30 June 2020, the Group had a loan facility from a related company of approximately RMB36.5 million (31 December 2019: approximately RMB35.8 million), of which approximately RMB36.3 million was utilised (31 December 2019: approximately RMB13.7 million).

Charge of Assets

As of 30 June 2020, the Group had restricted cash of approximately RMB5.5 million for bank guarantee of a trade finance facility (31 December 2019: approximately RMB5.5 million).

Contingent Liabilities

As of 30 June 2020, the Group did not have significant contingent liabilities (31 December 2019: Nil).

Foreign Exchange

The Group is exposed to foreign exchange risk arising from exposure in the United States Dollar, Euro and Hong Kong Dollar against Renminbi. Although the management personnel of the Group (the "**Management**") monitor its foreign exchange risks regularly, exchange rate fluctuations could affect the Group's margins and profitability.

RESULTS

The board of directors of the Company (the "**Directors**" and the "**Board**", respectively) announces the unaudited condensed consolidated results of the Group for the Reporting Period, prepared on the basis set out in Note 1 below, together with the comparative figures for the Prior Period, as follows.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended 30 June	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Revenue	4	**641,189**	849,964
Cost of sales		**(426,782)**	(488,450)
Gross profit		**214,407**	361,514
Other income	5	**3,952**	13,789
Other losses, net	6	**(7,065)**	(1,352)
(Impairment loss)/reversal of impairment loss on financial assets		**(1,502)**	2,052
Selling and distribution expenses		**(310,744)**	(328,226)
General and administrative expenses		**(30,145)**	(39,985)
Operating (loss)/profit		**(131,097)**	7,792
Finance costs		**(6,028)**	(7,458)
(Loss)/profit before tax		**(137,125)**	334
Income tax credit/(expense)	7	**1,512**	(2,271)
Loss for the period		**(135,613)**	(1,937)
Other comprehensive income/(loss)			
Item that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**5,735**	(3,186)
Other comprehensive income/(loss) for the period, net of tax		**5,735**	(3,186)
Total comprehensive loss for the period		**(129,878)**	(5,123)

		Six months ended 30 June	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
(Loss)/profit for the period attributable to:			
Owners of the company		**(131,696)**	(4,504)
Non-controlling interest		**(3,917)**	2,567
		(135,613)	(1,937)
Total comprehensive (loss)/income for the period attributable to:			
Owners of the company		**(125,833)**	(7,665)
Non-controlling interest		**(4,045)**	2,542
		(129,878)	(5,123)
Loss per share, basic and diluted	10	**(RMB16.5 cents)**	(RMB0.56 cent)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	At 30 June 2020 RMB'000 (unaudited)	At 31 December 2019 RMB'000 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**51,811**	58,377
Right-of-use assets	11	**140,311**	183,835
Intangible assets		**9,810**	9,882
Deposit paid for acquisition of property, plant and equipment		**165**	–
Rental deposits		**18,853**	24,734
Deferred tax assets		**24,838**	24,838
		245,788	301,666
Current assets			
Inventories		**473,909**	576,375
Trade receivables	12	**111,424**	134,190
Other receivables, deposits and prepayments		**97,455**	132,981
Right of return assets		**894**	3,271
Tax recoverable		**842**	190
Restricted cash		**5,500**	5,500
Bank balances and cash		**112,335**	30,685
		802,359	883,192
LIABILITIES			
Current liabilities			
Trade payables	13	**189,729**	214,444
Other payables and accruals		**122,306**	81,386
Loan from a related company		**36,264**	13,695
Lease liabilities	11	**88,964**	101,458
Contract liabilities	14	**18,365**	35,752
Current tax liabilities		**7,047**	7,970
		462,675	454,705

	Notes	At **30 June** **2020** ***RMB'000*** **(unaudited)**	At 31 December 2019 *RMB'000* (audited)
Non-current liabilities			
Provision for reinstatement costs		**6,623**	6,687
Lease liabilities	11	**75,316**	91,189
		81,939	97,876
Net current assets		**339,684**	428,487
Total assets less current liabilities		**585,472**	730,153
Net assets		**503,533**	632,277
EQUITY			
Owners of the Company			
Share capital	15	**6,931**	6,931
Reserves		**489,606**	614,305
		496,537	621,236
Non-controlling interest		**6,996**	11,041
Total equity		**503,533**	632,277

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the Six Months Ended 30 June 2020

1. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2020 (the "**Interim Financial Information**") 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 (the "**Listing Rules**"). The Interim Financial Information should be read in conjunction with the annual financial statements for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**"). Certain comparative figures have been reclassified to conform with current period's presentation of the financial information.

2. PRINCIPAL ACCOUNTING POLICIES

The Interim Financial Information has been prepared on the historical cost basis.

The accounting policies applied to this Interim Financial Information are consistent with those of the annual financial statements for the year ended 31 December 2019 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 2020 for the preparation of the Group's Interim Financial Information:

HKFRS 3 (Amendments)	Definition of a Business
HKAS 1 and HKAS 8 (Amendments)	Definition of Material
Amendment to HKFRS 9 and HKFRS 7	Interest rate benchmark reform
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting

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. Also, the Group has early adopted Amendments to HKFRS 16 "COVID-19 Related Rent Concession" from 1 January 2020 in order to apply practical expedient on rent concession related to COVID-19 that is effective on or after 1 June 2020, and the impact of the adoption is disclosed in Note 11. Other than Amendments to HKFRS 16, most of the other amendments listed above did not have any material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods. The adoption of other new and amended standards did not have any material impact on the current period or any prior periods.

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 2020 and have not been early adopted by the Group:

Standards	**Key requirements**	**Effective for accounting periods beginning on or after**
Amendments to HKAS 1	Classification of liabilities as current or non-current	1 January 2022
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
HKFRS 3 (Amendments)	Reference to the Conceptual Framework	1 January 2022
Amendments to HKFRS 1, HKFRS 9, HKAS 41 and HKFRS 16	2018–2020 annual improvement cycle	1 January 2022
HKFRS 17	Insurance Contracts	1 January 2023
HKFRS 10 and HKAS28 (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 applicable to the Group 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.

2.1. Change in presentation of segment information

During previous years, the Directors have presented the Group's operating segment information based on the nature of operations of the Group and classified into two operating segments of sales of toys and sales of infant products. During the period ended 30 June 2020, the Directors have changed the presentation of segment results based on the geographic area in which the Group operates.

Comparative financial information for the period ended 30 June 2019 has been restated following this change in presentation of segment information.

3. ESTIMATION

The preparation of 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, as well as income and expense. Actual results may differ from these estimates. In preparing this 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 Group's consolidated financial statements for the year ended 31 December 2019.

4. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in trading and sales of toys 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, that are used to make strategic decisions. The Group's operating segments are classified as the geographic area (i) the People's Republic of China (the "**PRC**"); and (ii) Hong Kong and overseas, which are based on the geographic area of the operations carried out by the Group. No operating segments have been aggregated in arriving at the reporting segments of the Group.

Segment revenue and results

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

Six months ended 30 June 2020

(Unaudited)	**The PRC**	**Hong Kong and overseas**	**Inter-segment elimination**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue				
– Revenue recognised at a point in time	**574,847**	**87,860**	**(21,518)**	**641,189**
Segment results	**(127,090)**	**5,246**	**–**	**(121,844)**
Unallocated other income				**181**
Unallocated corporate expenses				**(8,282)**
Unallocated other losses, net				**(6,885)**
Unallocated finance costs				**(295)**
Loss before tax				**(137,125)**

Six months ended 30 June 2019 (restated) *(note 2.1)*

(Unaudited)	The PRC	Hong Kong and overseas	Inter-segment elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue				
– Revenue recognised at a point in time	784,459	142,658	(77,153)	849,964
Segment results	3,524	8,567	–	12,091
Unallocated other income				172
Unallocated corporate expenses				(11,257)
Unallocated other losses, net				(672)
Profit before tax				334

Sales and distribution channels

The Group has a diverse retail network and an extensive distribution network. The Group sells toys 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:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Self-operated retail channels		
– Retail shops	**267,994**	331,045
– Consignment counters	**185,055**	245,999
– Online stores	**49,211**	46,453
Wholesale channels		
– Distributors	**109,449**	179,581
– Hypermarket and supermarket chains	**9,587**	12,673
– Online key accounts	**19,893**	34,213
	641,189	849,964

5. OTHER INCOME

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Interest income	**181**	172
Promotion income from brand owners	**–**	6,334
Government grants *(note)*	**2,620**	3,457
Sundry income	**1,151**	3,826
	3,952	13,789

Note: The Group recognises government grants from certain municipal governments and authorities of economic development zones. These grants are mainly innovation funding for the use of operation. The Group also recognises subsidies from Hong Kong government relating to "Retail Sector Subsidy Scheme" under the Anti-epidemic Fund.

6. OTHER LOSSES, NET

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Net exchange loss	**(7,154)**	(672)
Gain on fair value changes of financial asset at fair value through profit or loss	**269**	–
Loss on disposal of property, plant and equipment	**(3)**	(227)
Others	**(177)**	(453)
	(7,065)	(1,352)

7. INCOME TAX (CREDIT)/EXPENSE

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current tax:		
Hong Kong Profits Tax	**468**	863
PRC Enterprise Income Tax	**(1,980)**	67
	(1,512)	930
Deferred tax:		
Current year	**–**	1,341
	(1,512)	2,271

Income tax is accrued using the tax rate that would be applicable to expected total annual earnings.

8. 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:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Auditors' remuneration		
– Audit services	**1,155**	1,109
– Non-audit services	**–**	–
Amortisation of intangible asset	**263**	256
Depreciation of property, plant and equipment	**21,926**	17,583
Depreciation of right-of-use assets *(note 11(ii))*	**57,604**	53,682
Impairment loss on property, plant and equipment *(note)*	**9,530**	–
Impairment loss on right-of-use assets *(note)*	**10,765**	–
Cost of inventories	**379,061**	485,209
Rental expenses in respect of		
– variable leases payments *(note 11(ii))*	**6,977**	5,674
– short term leases *(note 11(ii))*	**8,211**	26,162
Rent concession *(note 11(ii))*	**(7,700)**	–
Advertising and promotional expenses	**27,708**	17,424
Concessionaire fees	**63,944**	84,278
Employee benefit expenses (including Directors' emoluments)	**39,922**	57,533
Outsourced personnel service fee	**48,790**	64,649
Provision for/(reversal of) impairment loss on trade receivables	**1,502**	(2,051)
Provision for/(reversal of) impairment loss on inventories, net (included in cost of sales)	**31,131**	(5,559)
Transportation	**22,056**	16,401
Building management fee	**15,344**	15,827

Note: The Group determines each individual retail store as a separately identifiable cash-generating unit (the "**CGU**") and monitors their financial performance. A provision for impairment of the Group's property, plant and equipment and right-of-use assets of RMB9,530,000 and RMB10,765,000 respectively for the period ended 30 June 2020 (2019: nil and nil, respectively) was made based on an impairment assessment carried out for the retail store assets which have an impairment indicator. Such impairment losses were recorded in selling and distribution expense. The recoverable amounts are based on value-in-use calculations which involved projected cash flows and key assumptions such as future revenue growth rate and gross profit margin percentage of individual CGUs based on the Group's annual budget.

9. DIVIDENDS

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2020 (2019: nil).

10. LOSS PER SHARE

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	
	2020	2019
Loss attributable to the owners of the Company *(in RMB'000)*	**(131,696)**	(4,504)
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 2020 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 2020 (2019: Same).

11. LEASES

(i) Amounts recognised in the condensed consolidated statement of financial position

The condensed consolidated statement of financial position shows the following amounts relating to leases:

	At 30 June 2020	At 31 December 2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Right-of-use assets	**154,279**	187,038
– Less: Impairment provision	**(13,968)**	(3,203)
	140,311	183,835
Lease liabilities		
– Current	**88,964**	101,458
– Non-current	**75,316**	91,189
	164,280	192,647

(ii) Amounts recognised in the condensed consolidated statement of profit or loss

The condensed consolidated statement of profit or loss shows the following amounts relating to leases:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Depreciation of right-of-use assets *(note 8)*	**57,604**	53,682
Interest expense (included in finance costs)	**5,733**	7,458
Expense relating to short-term leases *(note 8)*	**8,211**	26,162
Expense relating to variable lease payments not included in lease liabilities *(note 8)*	**6,977**	5,674
Rent concession	**(7,700)**	–

COVID-19-related rent concessions

The Group has applied practical expedient to all rent concessions occurring as a direct consequence of the COVID-19 pandemic with adoption precondition met under the "COVID-19-related rent concessions amendment to HKFRS 16 Leases". Rent concession amounting to RMB7,700,000 which represents the change in lease payment arising from COVID-19-related rent concession has been recognised in selling and distribution expenses for the six months ended 30 June 2020.

12. TRADE RECEIVABLES

	At 30 June 2020	At 31 December 2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade receivables from contracts with customers	**123,224**	144,488
Less: Provision for impairment	**(11,800)**	(10,298)
	111,424	134,190

The following is an ageing analysis of trade receivables, net of provision for impairment, presented based on the revenue recognition.

	At 30 June 2020	At 31 December 2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 30 days	**87,074**	108,098
31 to 60 days	**14,274**	8,373
61 to 90 days	**2,753**	3,108
91 to 180 days	**2,432**	12,250
Over 180 days	**4,891**	2,361
	111,424	134,190

13. TRADE PAYABLES

The credit periods granted by suppliers are generally ranged from 60 days to 90 days.

The ageing analysis of the trade payables at the end of reporting period based on invoice date is as follows:

	At 30 June 2020 *RMB'000* **(unaudited)**	At 31 December 2019 *RMB'000* (audited)
Within 30 days	**124,213**	125,747
31 to 60 days	**46,474**	54,997
61 to 90 days	**4,230**	13,933
Over 90 days	**14,812**	19,767
	189,729	214,444

14. CONTRACT LIABILITIES

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

15. SHARE CAPITAL

	Number of shares	*RMB'000*
Ordinary shares of HK$0.01 each		
Authorised:		
At 31 December 2019, 1 January 2020 and 30 June 2020	50,000,000,000	433,188
Issued and fully paid:		
At 31 December 2019, 1 January 2020 and 30 June 2020	800,000,000	6,931

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

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

As stated in the prospectus of the Company dated 31 October 2017 ("**Prospectus**"), the Company intended to use the Net Proceeds to (i) expand the Group's retail network in Mainland China 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 30 June 2020 is set out below:

	Use of the Net Proceeds as stated in the Prospectus (amount adjusted per final offer price) *HK$ million*	**Actual use of the Net Proceeds as of 30 June 2020** *HK$ million*	**Unused Net Proceeds as of 30 June 2020** *HK$ million*	**Further information**
Expand the Group's retail network in Mainland China and Hong Kong				
– Opening flagship toy stores in Mainland China	60.5	60.5	–	The full amount has been utilised as intended.
– Opening Kidsland and Babyland stores in Mainland China	46.1	46.1	–	The full amount has been utilised as intended.
– Opening LEGO Certified Stores in Mainland China and Hong Kong	34.6	34.6	–	The full amount has been utilised as intended.
– Upgrading the information technology system, developing e-commerce business, upgrading store image and visual display, and paying for other marketing expenses at the retail points	34.6	34.6	–	The full amount has been utilised as intended.

	Use of the Net Proceeds as stated in the Prospectus (amount adjusted per final offer price)	Actual use of the Net Proceeds as of 30 June 2020	Unused Net Proceeds as of 30 June 2020	Further information
	HK$ million	*HK$ million*	*HK$ million*	
Strengthen the Group's product development capabilities	51.9	51.9	–	The full amount has been utilised as intended.
Develop experience centres and associated products	31.7	21.0	10.7	The first experience centre was opened in 2018. The second experience centre, operated as a franchise store, is planned to be opened in the second half of 2020. The remaining amount is planned to be utilised as intended.
Working capital and other general corporate purposes	28.9	28.9	–	The full amount has been utilised as intended.
	288.3	277.6	10.7	

As of the date of this announcement, the amount of Net Proceeds not yet utilised is approximately HK$10.7 million. The Company has used and/or intends to use the unused Net Proceeds in the same manner as disclosed in the Prospectus.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company did not redeem any of its listed securities, nor did the Company or any of its subsidiaries purchase or sell such securities during the Reporting Period.

SIGNIFICANT INVESTMENT HELD AND MATERIAL ACQUISITION AND DISPOSAL

During the Reporting Period, 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 of 30 June 2020, the Group had approximately 1,900 employees (including both in-house and outsourced employees) (30 June 2019: approximately 2,300 employees) in Mainland China and Hong Kong. Total remuneration for in-house and outsourced employees for the Reporting Period amounted to approximately RMB39.9 million and RMB48.8 million, respectively (Prior Period: approximately RMB57.5 million and RMB64.6 million, respectively). The Group's remuneration packages comply with legislation in relevant jurisdictions and are decided based on market conditions and employees' levels of experience and qualifications; bonuses are awarded based on employee performance and the Group's financials. The Group has been ensuring adequate training and professional development opportunities to employees.

EVENTS AFTER THE REPORTING PERIOD

No events affecting the Group have been taken place after 30 June 2020 until the date of this announcement.

CORPORATE GOVERNANCE PRACTICES

We have adopted and applied the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the "**CG Code**") 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 Reporting Period 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 Ching Yiu ("**Mr. Lee**"). As the founder of the Group, Mr. Lee has substantial experience in the toy industry. All the other 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 (the "**Shareholders**") as a whole that Mr. Lee continues to assume the roles of the Chairman and the CEO.

MODEL CODE SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE AND REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The Board has established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with the CG Code. As of the date of this announcement, the Audit Committee consists of three independent non-executive Directors (the "**INEDs**"), namely Mr. Cheng Yuk Wo (chairman of the Audit Committee), Mr. Huang Lester Garson and Dr. Lam Lee G. The unaudited condensed consolidated financial statements of the Group for the Reporting Period have been reviewed by the Audit Committee.

The 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" issued by the HKICPA.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement is published on the respective websites of the Company (www.kidslandholdings.com) and the Stock Exchange (www.hkexnews.hk). The interim report of the Company for the Reporting Period will be dispatched to the Shareholders and made available in the above websites in due course in the manner as required by the Listing Rules.

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 in stabilizing while strengthening our business when facing many unprecedented challenges caused by the COVID-19 pandemic.

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

Hong Kong, 31 August 2020

As of the date of this announcement, the Board comprises the executive Directors, namely Mr. Lee Ching Yiu (Chairman and Chief Executive Officer), Mr. Hung Shing Ming and Ms. Zhong Mei; the non-executive Directors, namely Mr. Du Ping and Ms. Duan Lanchun; and the INEDs, namely Mr. Cheng Yuk Wo, Mr. Huang Lester Garson and Dr. Lam Lee G.