THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should obtain independent professional advice or consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Kiddieland International Limited**, you should at once hand this circular and the accompanying form of proxy and, if applicable, the annual report to the purchaser(s) or transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

KIDDIELAND

Kiddieland International Limited

童 園 國 際 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3830)

VERY SUBSTANTIAL DISPOSAL
DISPOSAL OF 100% EQUITY INTEREST IN
東莞童園實業有限公司
(DONGGUAN KIDDIELAND INDUSTRIAL CO., LTD.)
AND
SPECIAL CASH DIVIDEND
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

A letter from the Board is set out on pages 5 to 20 of this circular.

A notice convening the extraordinary general meeting of Kiddieland International Limited to be held at Room 1405, 14/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong on Friday, 8 November 2019 at 10:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. Whether or not you are able to attend the extraordinary general meeting, you are requested to complete and return the enclosed form of proxy, which is also published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.kiddieland.com.hk), in accordance with the instructions printed thereon to the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting or any adjournment thereof (as the case may be) should you so wish.

23 October 2019

CONTENTS

In this circular (other than those set out in the notice of the EGM), the following expressions shall have the meanings set out below unless the context requires otherwise:

"Agreement"	the equity transfer agreement dated 5 August 2019 entered into between the Vendor, the Purchaser and the Target Company in relation to the Disposal
"Bank"	中國農業銀行股份有限公司東莞塘廈支行 (Agricultural Bank of China Limited Dongguan Branch Tangxia Sub-Branch)
"Board"	the board of the Directors
"Company"	Kiddieland International Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange (Stock Code: 3830)
"Completion"	the completion of the Disposal pursuant to the Agreement
"Completion Date"	has the meaning ascribed to it under the section headed "Completion" in the "Letter from the Board" in this circular
"Consideration"	the consideration for the Disposal, being RMB320 million (approximately HK$363 million)
"Controlling Shareholders"	Mr. Kenneth Lo, Ms. Suzanne Lo, Ms. Sylvia Lo, Mr. Victor Lo, Ms. Esther Leung, and KLH Capital
"DG Kiddieland Factory"	東莞塘廈童園玩具廠 (Dongguan Tangxia Kiddieland Toy Factory), a contract processing factory (來料加工廠) established in the PRC on 9 April 1998 in accordance with an agreement entered into between the Vendor and 東莞市塘廈鎮鎮聯經貿有限公司 (Dongguan Tangxia Town Zhenlian Jingmao Co., Ltd.)
"Director(s)"	the director(s) of the Company
"Disposal"	the disposal of 100% equity interest in the Target Company by the Vendor to the Purchaser in accordance with the terms and conditions of the Agreement
"EGM"	the extraordinary general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, to approve the Disposal, the Agreement and the transactions contemplated thereunder

"Factory Land"	the land with a site area of approximately 91,879 square metres. located at Gao Li Industrial Area, Tangxia, Dongguan, Guangdong Province, the PRC, where the Group's production and ancillary facilities are located
"Group"	the Company and its subsidiaries
"HK$" or "Hong Kong Dollar"	Hong Kong dollar(s), the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Intra-group Transfer"	has the meaning ascribed to it under the section headed "Information on the Target Company" in the "Letter from the Board" in this circular
"Jointly Controlled Account"	has the meaning ascribed to it under the section headed "Consideration" in the "Letter from the Board" in this circular
"KLH Capital"	KLH Capital Limited, a controlling shareholder of the Company
"Latest Practicable Date"	17 October 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
"Leaseback Arrangement"	has the meaning ascribed to it under the section headed "Leaseback Arrangement" in the "Letter from the Board" in this circular
"Liquidated Damages"	the maximum amount of liquidated damages permitted under the prevailing PRC laws and regulations and their judicial interpretations, the actual amount of which is subject to determination in accordance with the effective PRC court documents
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange
"New Company"	has the meaning ascribed to it under the section headed "Information on the Target Company" in the "Letter from the Board" in this circular
"PRC"	People's Republic of China, which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

"Production Plant Land"	has the meaning ascribed to it under the section headed "Information on the Target Company" in the "Letter from the Board" in this circular
"Prospectus"	the prospectus of the Company dated 11 September 2017
"Purchaser"	東莞市盛托投資股份有限公司 (Dongguan Shengtuo Investment Co., Ltd.), a company established in the PRC
"Realignment"	has the meaning ascribed to it under the section headed "Information on the Target Company" in the "Letter from the Board" in this circular
"Remaining Group"	the Group excluding the Target Company
"Remaining Land"	has the meaning ascribed to it under the section headed "Information on the Target Company" in the "Letter from the Board" in this circular
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Special Cash Dividend"	the special cash dividend as more particularly described in the section headed "Special Cash Dividend" in the "Letter from the Board" in this circular
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supervision Agreement"	has the meaning ascribed to it under the section headed "Consideration" in the "Letter from the Board" in this circular
"Target Company"	東莞童園實業有限公司 (Dongguan Kiddieland Industrial Co., Ltd.), a wholly foreign owned enterprise established in the PRC and an indirect wholly-owned subsidiary of the Company
"Transformation"	has the meaning ascribed to it under the section headed "Information on the Target Company" in the "Letter from the Board" in this circular
"U.S."	the United States of America
"US Dollar"	United States dollar, the lawful currency of U.S.

"Vendor"	Kiddieland Industrial Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
"%"	per cent

English names of the PRC established companies in this circular are only translations of their official Chinese names. In case of inconsistency, the Chinese names prevail.

For the purpose of this circular, RMB has been converted into HK$ at the rate of RMB0.88 to HK$1.00 for illustration purpose only. No representation is made that any amounts in RMB or HK$ have been, could have been or could be converted at the above rate or at any other rates or at all.

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

Executive Directors:
Mr. LO Shiu Kee Kenneth
(Chief Executive Officer)
Ms. LO Shiu Shan Suzanne
Ms. SIN LO Siu Wai Sylvia
Mr. LO Hung *(Chairman)*
Ms. LEUNG Siu Lin Esther

Independent non-executive Directors:
Ms. TSE Yuen Shan
Mr. MAN Ka Ho Donald
Mr. CHENG Dominic

Registered office:
PO Box 1350
Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

Headquarters and Principal Place of Business in Hong Kong:
14/F, Bank of America Tower
12 Harcourt Road
Central
Hong Kong

23 October 2019

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL
DISPOSAL OF 100% EQUITY INTEREST IN
東莞童園實業有限公司
(DONGGUAN KIDDIELAND INDUSTRIAL CO., LTD.)
AND
SPECIAL CASH DIVIDEND
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated 5 August 2019 in relation to the Disposal.

The purpose of this circular is to provide you with, among other things, (i) details of the Disposal and the Agreement and information relating to the Special Cash Dividend, (ii) a notice of the EGM; and (iii) other information as required under the Listing Rules.

THE DISPOSAL AND THE AGREEMENT

On 5 August 2019 (after trading hours), the Vendor (a wholly-owned subsidiary of the Company), the Purchaser and the Target Company entered into the Agreement, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase 100% equity interest in the Target Company. The principal terms of the Agreement are summarised below:

Date

5 August 2019

Parties

(1)	Vendor:	Kiddieland Industrial Limited, a wholly-owned subsidiary of the Company
(2)	Purchaser:	東莞市盛托投資股份有限公司 (Dongguan Shengtuo Investment Co., Ltd.)
(3)	Target Company:	東莞童園實業有限公司 (Dongguan Kiddieland Industrial Co., Ltd.)

To the best knowledge, information and belief of the Directors, after having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined under the Listing Rules).

Assets to be disposed of

100% equity interest in the Target Company (including all rights which the Target Company may have in the Factory Land and the buildings erected thereon, equipment and facilities and appurtenance).

Further information on the Target Company is set out in the section headed "Information on the Target Company" below.

Consideration

The Consideration for the Disposal is RMB320 million (approximately HK$363 million), which will be paid by the Purchaser in cash by three instalments into a jointly controlled account (共管賬戶) (the "**Jointly Controlled Account**") opened with the Bank which will arrange for remittance of such amounts into the Group's designated Hong Kong bank account in the following manner:

(1) RMB160 million (approximately HK$182 million), being 50% of the Consideration, shall be paid by the Purchaser into the Jointly Controlled Account within 10 days from the signing of the Agreement, which amount shall be paid to the Vendor in accordance with the transaction funds supervision agreement entered into between the Bank, the Purchaser and the Vendor in relation to the Jointly Controlled Account (the "**Supervision Agreement**");

(2) RMB128 million (approximately HK$145 million), being 40% of the Consideration, shall be paid by the Purchaser into the Jointly Controlled Account within 3 days after (i) it has completed its due diligence investigation on the Target Company, (ii) the public notice to third party creditors of the Target Company has expired and (iii) the Vendor has settled all third-party liabilities of the Target Company, which amount shall be paid to the Vendor in accordance with the Supervision Agreement within 3 days after the completion of the transfer of 100% interest of the Target Company to the Purchaser (i.e. the Completion Date) and the parties have completed all procedures relating to such transfer of interest and all third-party liabilities of the Target Company have been settled by the Vendor; and

(3) RMB32 million (approximately HK$36 million), being the balance of the Consideration, shall be paid by the Purchaser into the Jointly Controlled Account one and a half years from the date of the Agreement (i.e. on 4 February 2021), which amount shall be paid to the Vendor in accordance with the Supervision Agreement.

On 26 August 2019, the Purchaser notified the Vendor in writing that (i) it had completed its due diligence investigation on the Target Company and was satisfied with the results; (ii) it waived the requirement for the issue of public notice to third party creditors of the Target Company and settlement of all third party liabilities of the Target Company before the payment of the second instalment of the Consideration, although such third party liabilities of the Target Company shall still be settled by the Vendor prior to Completion; and (iii) it will pay the second instalment of the Consideration into the Jointly Controlled Account within 3 days from the date of such written notification.

As at the Latest Practicable Date, the first and second instalments of the Consideration totalling RMB288 million (approximately HK$327 million) had been paid into the Jointly Controlled Account by the Purchaser, and the sum of RMB27 million (approximately HK$30.7 million) has been remitted from the Jointly Controlled Account to the Group's own bank account for the purpose of settlement of severance payment of employees of the Target Company as contemplated under the Supervision Agreement.

As there are exchange control regulations in the PRC governing the transfer of funds out of the PRC, the Vendor, the Purchaser and the Bank entered into the Supervision Agreement pursuant to which the funds will be paid by the Purchaser to the Bank and then remitted to the Group's bank account in Hong Kong after foreign exchange regulatory formalities have been cleared. The principal terms of the Supervision Agreement are summarised below:

Funds subject to supervision

The amount of funds subject to supervision under the Supervision Agreement is RMB320 million in the form of a demand deposit with interest.

Payment of funds

The timing of payment of the three instalments of the Consideration into the Jointly Controlled Account as set out in the Supervision Agreement is largely similar to that set out in the Agreement. According to the Supervision Agreement, the Bank will remit funds in the Jointly Controlled Account to the Vendor's designated bank account in the following circumstances:

(1) The Vendor shall provide to the Bank particulars of tax payable, particulars of severance payment or confirmation of payment of other fees incurred within the PRC in respect of the Disposal affixed with the specimen seal of both the Vendor and the Purchaser and accompanied by a payment instruction from the Vendor (separate payment instruction from the Purchaser is not required), and the Bank shall then remit the corresponding amount of funds to the Vendor's designated bank account after performing verification.

(2) After the successful transfer of 100% interest in Target Company by the Vendor to the Purchaser, the Vendor shall provide to the Bank the relevant notice of approval of change as well as the new business licence of Target Company accompanied with the payment instruction from the Vendor (separate payment instruction from the Purchaser is not required), and the Bank shall remit the balance of the amount in the Jointly Controlled Account to the Vendor's designated bank account after performing verification.

(3) Within one and a half years after the signing of the Supervision Agreement (i.e. by 5 February 2021), the Vendor shall deliver to the Bank a payment instruction affixed with the specimen chop of both the Vendor and the Purchaser, and the Bank shall remit the relevant sum to the Vendor's designated bank account in accordance with such payment instruction.

Where the payment is to be remitted to an account outside the PRC, the Vendor and the Purchaser shall be required to produce to the Bank relevant information in accordance with the foreign exchange regulations of the PRC and perform the relevant filing and other procedures.

Term and termination

The term of supervision under the Supervision Agreement shall be from 6 August 2019 to 31 July 2022, which term may be shortened or extended by consent of all the parties to the Supervision Agreement.

The Supervision Agreement will be terminated upon the occurrence of any of the following events:

(a) fulfilment of all obligations under the Supervision Agreement;

(b) both the Vendor and the Purchaser agrees to the termination and has delivered a written termination application to the Bank, to which the Bank agrees; or

(c) situations contemplated under PRC laws and regulations or the other provisions of the Supervision Agreement.

Upon termination of the Supervision Agreement, the Jointly Controlled Account will be cancelled and any balance and interest therein will be remitted back to the Purchaser's designated account. Upon expiration of the term of supervision, all interest accrued in the Jointly Controlled Account shall be paid to the Purchaser's designated account.

Although the second instalment of the Consideration will only be paid to the Vendor within 3 days after the Completion Date, it had already been paid by the Purchaser into the Jointly Controlled Account. Given that payment instruction is only required from the Vendor and not the Purchaser, unless there are unforeseen circumstances such as change in exchange control regulations which are beyond the parties' control, the Bank will be required to remit such amount to the Group once the formalities have been completed and the relevant documents have been provided to the Bank. The Directors therefore believe that there is minimal risk that the Group will not be able to receive at least 90% of the Consideration if the Disposal is completed.

As the Target Company is an operating company, both the Vendor and the Purchaser envisage that transition and handover of the Target Company from the Group to the Purchaser may take a longer period. As such, the Vendor and the Purchaser had agreed that payment of 10% of the Consideration will be deferred until one and a half years from the date of the Agreement such that the transition and handover process would have been completed and any hidden problems would have surfaced and be solved. Accordingly, the Company considers it fair and reasonable for the Purchaser to pay the third instalment of the Consideration one and a half years after the date of the Agreement, by which time Completion would have already taken place. Furthermore, the Directors are of the view that the risk of non-payment of the third instalment of the Consideration by the Purchaser is minimal and worth taking, and the impact of non-payment on the Group is not material, taking into account the following:

(1) only 10% of the Consideration will remain payable after the Completion Date and such amount of RMB32 million is not a substantial amount to the Group as it represents only approximately 6.1% of the unaudited pro forma consolidated total assets of the Remaining Group as at 30 April 2019 as shown in Appendix III;

(2) the first and second instalments together already represent a premium of approximately 289.3% over the expected net asset value of the Target Company at the time of Completion; and

(3) so far as the executive Directors are aware, Mr. Zhou Bing-hui (周炳輝), which owns 60% interest in the Purchaser, is the chairman of Yongfa Group (永發集團), the chairman and president of 東莞市塘廈鎮工商業聯合會(商會) and the vice-president of 世界莞商聯合會 (World Dongguan Entrepreneurs Federation). According to Yongfa Group's website, its business includes property investment and development, property management, construction, automobile inspection and repair as well as hotel and entertainment services, and had formed strategic alliance with various reputable companies. Given the background of the Purchaser's majority shareholder, the Company believes that it is unlikely for the Purchaser to default in payment of the third instalment of the Consideration.

If payment of any instalment of the Consideration by the Purchaser is delayed for more than 30 days, the Vendor shall have the right to (i) terminate the Agreement, in which case it shall within 3 days refund all amounts of the Consideration paid by the Purchaser, and the Purchaser shall pay Liquidated Damages to the Vendor in accordance with the maximum liquidated damages provided under the laws and regulations of the PRC and their judicial interpretation; or (ii) continue to perform the Agreement, in which case liquidated damages calculated at a rate of 0.10% of the unpaid Consideration is payable by the Purchaser to the Vendor for each overdue date. Therefore, in the event that the Purchaser defaults and refuses to pay the third instalment of the Consideration at all, the Vendor can take out legal proceedings against the Purchaser to recover the unpaid amount plus Liquidated Damages, whereas if the Purchaser just requires more time to arrange funding, the Liquidated Damages would serve as compensation to the Vendor for the delay in payment.

The Purchaser took the initiative to approach the Vendor in relation to the Disposal and the Vendor and the Purchaser then entered into discussions concerning the business and financial position of the Target Company as well as the assets which will be retained in the Target Company after the Realignment (as defined below). After such discussions, the Consideration was the amount finally offered by the Purchaser to acquire the Target Company and all rights which the Target Company may have in the Factory Land and the buildings erected thereon, equipment and facilities and appurtenance. As it is expected that the net asset value of the Target Company attributable to the owners of the Target Company at the time of Completion (assuming that it takes place on 15 November 2019) will be approximately HK$84 million, which included HK$70 million of prepaid operating leases, factory and building, leasehold improvement and construction in progress, with the remaining balance of HK$14 million representing moulds and machinery. The Consideration represents a premium of approximately 332% over such net asset value of the Target Company. While the factors which the Purchaser had taken into account when determining the amount of the Consideration to offer as well as the reason for the substantial premium over the net asset value of Target Company were not revealed to the Vendor, taking into account the considerable amount of premium over the net asset value of the Target Company after completion of the Intra-group Transfer (as defined below) and the Realignment, the Directors are of the view that the amount of the Consideration offered by the Purchaser is acceptable and financially rewarding to the Group, and is fair and reasonable so far as the Group is concerned and is in the interest of the Group and the Shareholders as a whole.

Condition precedent

Completion of the Disposal is conditional upon the approval of the transactions contemplated under the Agreement by the Shareholders at the EGM.

Completion

Completion of the Disposal shall take place on the date on which the Purchaser obtains the new business license of the Target Company issued by the relevant local Administration of Industry and Commerce (工商局) of the PRC (the "**Completion Date**").

Leaseback Arrangement

The Purchaser had also agreed with the Vendor under the Agreement to grant to the Vendor a lease of the factory and buildings occupied by the Target Company which houses the Group's existing production and ancillary facilities located at the Factory Land for a period of three years from the Completion Date (the "**Leaseback Arrangement**"). The Leaseback Arrangement can be terminated by the Vendor by giving 2 months' written notice to the Purchaser any time, but cannot be terminated by the Purchaser unilaterally.

The first 18 months of the term of the Leaseback Arrangement will be rent-free and a monthly rental of RMB200,000 (approximately HK$227,000) will be payable by the Vendor for the remaining 18 months. During the term of the Leaseback Arrangement, the Vendor shall be responsible for all expenses incurred in connection with the Vendor's manufacturing operations and use of the relevant premises.

The Vendor and the Purchaser shall arrange for a separate lease agreement to be entered into in connection with the Leaseback Arrangement and the Vendor may designate its subsidiary to enter into such lease agreement with the Target Company and to use the relevant premises.

Labour Arrangement

Prior to the Purchaser obtaining 100% interest in the Target Company, the Vendor shall procure that all labour relationship between the Target Company and its employees are terminated, and that all wages, outstanding fees, insurance and taxes payable in connection with such termination are fully settled.

Tax arrangement

The Purchaser has undertaken to the Vendor under the Agreement that if the total amount of tax arising out of the Disposal (including tax expenses incurred in connection with the transfer of assets to the Target Company at the request of the Purchaser) payable by the Vendor exceeds 10% of the Consideration, such excess amount shall be borne by the Purchaser.

Based on the prevailing PRC tax laws and regulations, the estimated tax payable for the Disposal is HK$31.2 million, which comprises PRC enterprise income tax of HK$31.0 million and stamp duty in the PRC of HK$0.2 million. In addition, there is a Hong Kong profits tax of HK$7.3 million in relation to a claw back of industrial building allowances claimed in the prior taxation years, which is not an additional tax cost to the Company. Hence, the estimated tax payable in the PRC for the Disposal is less than 10% of the Consideration.

Liability for breach of contract

In the case of non-performance of the Agreement by any party to the Agreement, the party in default shall compensate the non-defaulting party for its actual losses and shall pay Liquidated Damages to the non-defaulting party.

If the Purchaser discovers any falsity in the representations and warranties made by the Vendor during the course of due diligence after the signing of the Agreement, the Purchaser shall have the right to terminate the Agreement whereupon the Vendor shall refund such amount of the Consideration already paid by the Purchaser and shall pay Liquidated Damages to the Purchaser.

If the Vendor fails to timely deliver 100% equity interest in the Target Company (including all rights which the Target Company may have in the Factory Land and the buildings erected thereon, equipment and facilities and appurtenance) to the Purchaser, liquidated damages calculated at a rate of 0.10% of the Consideration is payable by the Vendor to the Purchaser for each overdue date; and if the Vendor still fails to deliver the aforesaid interest to the Purchaser after the expiration of 30 days, the Purchaser shall have the right to terminate the Agreement, whereupon the Vendor shall within 3 days refund all sums already paid by the Purchaser and pay Liquidated Damages to the Purchaser.

If the registration of change in respect of the transfer of 100% equity interest in the Target Company to the Purchaser cannot be completed on time due to the Vendor's fault, the Purchaser shall have the right to decide either to (i) negotiate with the Vendor to extend the time for completing the relevant registration procedures; or (ii) terminate the Agreement, in which case the Vendor shall within 3 days refund all sums already paid by the Purchaser, compensate the Purchaser for its actual losses and pay Liquidated Damages to the Purchaser.

INFORMATION ON THE TARGET COMPANY

The Target Company was incorporated in the PRC and is an indirect wholly-owned subsidiary of the Company. It is principally engaged in the manufacturing of toys products, with its existing production and ancillary facilities located at the Factory Land in Dongguan, Guangdong Province, the PRC.

The unaudited net asset value of the Target Company attributable to the owners of the Company as at 30 April 2019 per book value amounted to approximately HK$70 million. As disclosed in the Prospectus, the Target Company was established to take over all business and operations of DG Kiddieland Factory by way of "transformation on the same site without cessation of production" (就地不停產轉型) (the "**Transformation**"). In connection therewith, the Target Company took over the business and operations of DG Kiddieland Factory since the Transformation and all the fixed assets of DG Kiddieland Factory were transferred to the Target Company in stages, and was completed in mid-June 2019 (the "**Intra-group Transfer**"). In addition, the Group established a new subsidiary in the PRC in October 2018 (the "**New Company**") and started an internal business realignment exercise to reallocate the majority of the Group's assets, whereby certain desired products, related moulds and relevant machineries, of which the total book value (which is the same as the transfer price) amounts to approximately HK$19.4 million, are in the process of being assigned to the New Company (the "**Realignment**").

Due to the Intra-group transfer and Realignment, there will be a vast difference between the business operations and assets of the Target Company as at the Latest Practicable Date and those at the time of completion of the Disposal, which is expected to take place after completion of the Realignment. Immediately after completion of the Disposal (assuming that it takes place on 15 November 2019), it is expected that the carrying value of the property, plant and equipment held by the Remaining Group will be approximately HK$43 million.

Set out below are the unaudited profit before and after taxation of the Target Company for the two financial years ended 30 April 2018 and 30 April 2019 prepared in accordance with Hong Kong Financial Reporting Standards and extracted from the Target Company's financial information, the text of which is set out in Appendix II of this circular:

	For the year ended 30 April	
	2018	**2019**
Profit before taxation	HK$4,604,000	HK$3,850,000
Profit after taxation	HK$3,453,000	HK$2,928,000

As the above information on the net asset value as well as the profit before and after taxation of the Target Company as at 30 April 2019 relates to a period prior to the Realignment, they will be significantly different from the net asset value as well as the profit before and after taxation of the Target Company at the time of completion of the Disposal which is expected to take place after completion of the Realignment. It is expected that the net asset value of the Target Company attributable to the owners of the Target Company at the time of completion of the Disposal (assuming that it takes place on 15 November 2019) would be approximately HK$84 million, which included HK$70 million of prepaid operating leases, factory and building, leasehold improvement and construction in progress, with the remaining balance of HK$14 million representing moulds and machinery.

Please refer to Appendix II for the unaudited historical financial information of the Target Company for the years ended 30 April 2017, 2018 and 2019 which had been reviewed by the auditors of the Company. Such historical financial information had not taken into account the effect of the Intra-group Transfer and the Realignment, both of which were completed subsequent to 30 April 2019. Accordingly, there exists a vast difference between the business operations and assets of the Target Company as at the Completion Date and the historical financial information of the Target Company for the years ended 30 April 2017, 2018 and 2019, and the historical performance of the Target Company did not represent the performance of the assets and business disposed pursuant to the Disposal.

LCH (Asia-Pacific) Surveyors Limited, an independent property valuer to the Group, has valued the property interests of the Target Company located in Dongguan, the PRC as at 31 August 2019. Based on their valuation, no commercial value was attributable to the property interests of the Target Company as at 31 August 2019 because the property either did not possess the relevant State-owned Land Use Rights Certificate or Real Estate Ownership Certificate or was subject to leasehold arrangements. As disclosed on pages 140 to 152 of the Prospectus, the Group does not possess valid land use right certificates for the Factory Land and the real estate ownership certificates for all the buildings erected thereon. Among the Target Company's interest in the Factory Land, office and warehouse are situated on a portion of the Factory Land with total site area of approximately 37,616 sq.m. (the "**Production Plant Land**") whereas the ancillary properties and certain ancillary facilities are situated on the remaining portion of the Factory Land with total site area of approximately 54,263 sq.m. (the "**Remaining Land**"). The Group had previously taken steps to apply for the land use right certificates for the Production Plant Land but subsequently had not further pursued such application. However, the Target Company had entered into agreements with the land owners of the Factory Land pursuant to which, *inter alia*, the land owners agreed that the buildings erected on the Production Plant Land shall belong to the Target Company in light that the Target Company will apply for land use rights certificates in respect of the Production Plant Land and real estate ownership certificates in respect of the buildings erected thereon. While the Group has no intention to apply for the land use right certificates for the Remaining Land, the Remaining Land has been leased to the Target Company by the land owners for use at nil consideration until 30 November 2047.

For details of the historical background of the Factory Land, please refer to pages 140 to 152 of the Prospectus. For details of the valuation, please refer to the texts of the letter from LCH (Asia-Pacific) Surveyors Limited, summary of values and valuation certificate as set out in Appendix IV to this circular.

As at the Latest Practicable Date, there were intra-group balances in the amount of approximately RMB114 million (approximately HK$130 million) due from the Target Company to the Remaining Group and intra-group balances in the amount of approximately RMB51 million (approximately HK$58 million) due from the Remaining Group to the Target Company. Such intra-group balances after setting-off will be waived in full upon Completion.

FINANCIAL IMPACT OF THE DISPOSAL

Upon completion of the Disposal, the Company will no longer hold any interest in the Target Company, the Target Company will cease to be an indirect wholly-owned subsidiary of the Company, and the financial results of the Target Company will no longer be consolidated into the financial statements of the Group with effect from the Completion Date.

Earnings

The Group expects to recognize an estimated net gain of approximately HK$180 million from the Disposal which is calculated with reference to the carrying amount of the assets to be disposed of as at 30 April 2019 and other directly related costs, including taxes. The Group expects the revenue to decrease by HK$16.4 million and the profit after tax to decrease by HK$1.8 million for the year ended 30 April 2019 related to the loss of sales contributed from the disposed product line.

Assets and liabilities

Pursuant to the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to this circular, assuming that Completion had taken place on 30 April 2019, the unaudited pro forma consolidated total assets and unaudited pro forma consolidated total liabilities of the Remaining Group would be approximately HK$595.0 million and HK$273.5 million, respectively.

Transaction costs

The estimated transaction costs directly attributable to the Disposal includes mainly (i) the severance payment expenses of approximately HK$29.4 million regarding the termination of all labour relationship between the Target Company and its employees; (ii) the service fee and professional fee to be paid of approximately HK$23.5 million; (iii) the PRC enterprise income tax of approximately HK$31.0 million, which is determined at the tax rate of 10% on the estimated taxable disposal gain arising from the transfer of equity interest in the Target Company; (iv) the Hong Kong profits tax of approximately HK$7.3 million regarding industrial building allowances of the disposed assets claimed previously; and (v) the stamp duty in PRC of approximately HK$0.2 million, which is calculated at the tax rate of 0.05% on the cash consideration.

General

Shareholders and potential investors of the Company should note that the actual financial effects of the Disposal to the Group may be different from those of the above and can only be determined based on the then financial position of the Target Company upon Completion.

INTENDED APPLICATION OF PROCEEDS

It is expected that the net proceeds from the Disposal will amount to approximately HK$270 million. It is proposed that part of the net proceeds from the Disposal, which is expected to be approximately HK$150 million, will be distributed to the Shareholders in the form of a special cash dividend, further information of which is set out in the section headed "Special Cash Dividend" in this circular. The balance of the net proceeds is currently intended to be retained for the following purposes:

- approximately HK$50 million to be applied towards product development, expansion of market and channel, and the Company expects that approximately HK$9 million, HK$20 million and HK$21 million will be used in the financial years ending 30 April 2020, 2021 and 2022 respectively;

- approximately HK$15 million to cater for future manufacturing facilities relocation charges, and the Company expects that the amount will be kept as a reserve for use until a strategic location where the factory can be relocated has been identified. The Directors prefer to find a readily available factory with comparable space for lease where rents are less expensive than Tangxia Dongguan and labour supply is more abundant. This approach would minimize any investment associated with the relocation. A breakdown of the HK$15 million set aside is as follows: approximately HK$3 million for transportation, approximately HK$7 million for bare minimum renovation work required to set up the new factory and run the factory including water and electricity, ventilation system, waste management etc., approximately HK$3 million for installation of old and/or purchases of new machineries and equipment, and the remaining balance of approximately HK$2 million will be used as rental deposit if required by the landlord;

- approximately HK$45 million for repayment of certain indebtedness, and the Company expects that this amount will be used to repay part of the bank loans owing by the Group by the end of the year 2019; and

- approximately HK$10 million for use as general working capital.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Disposal is beneficial to the Group and the Shareholders as a whole from a financial perspective since it would have minimal impact on the Group's everyday business operations and part of the net proceeds from the Disposal will be retained by the Group as working capital and future expansion use.

As disclosed in the Prospectus, the Group adopts a global licensing strategy to acquire licensed rights from major entertainment properties licensors and most of its products are co-branded with such licensed entertainment properties so as to leverage on the marketing benefits of the internationally renowned entertainment properties to expediently gain consumer awareness, recognition of authenticity and establish credibility and market acceptance from the mass market. This licensing strategy of the Group has offered to the

Group a competitive advantage which is not available to most other Hong Kong-based toy companies. The Group will continue to identify and enter into licensing arrangements for new and rising properties with traits which it sees as distinct and captivating.

The challenge for the Group over the last two years has been the shrinkage of traditional retail customers due to a relatively poor global economy as well as the emergence of internet sales. The Group is now investing more resources in internet sales and believes that continuing its emphasis on internet sales will contribute to the growth of the Group.

Recently, the trade war between the U.S. and the PRC has become more imminent than ever. In the event that U.S. tariffs are imposed on toys imported from the PRC, even if customers are willing to help absorb some of the tariffs imposed, sales and profit margin of the Group will be inevitably diminished. The Group is therefore considering the feasibility of relocating its production facilities to somewhere else and the proceeds from the Disposal can be applied to fund such relocation.

The net proceeds from the Disposal will provide the Group with financial resources to pursue new opportunities such as further development of its 6V rechargeable powered ride-ons, which is a new category of product started by the Group in 2018. The Disposal will also allow the Group to have more financial flexibilities in exploring new production facilities located elsewhere (e.g. remote parts of the PRC, Vietnam or Cambodia) that will hopefully offer more competitive production costs and more stable labour supply. With the Leaseback Arrangement, the Remaining Group will have up to three years to identify an appropriate replacement factory location and implement the relocation in an orderly manner, which is expected to be financed by part of the net proceeds from the Disposal.

Further, the Directors believe that the net proceeds from the Disposal will far exceed the value of retaining the Target Company within the Group. Since the Target Company possesses some moulds and relevant machineries which, in the view of the Company's management, cannot sustain profitability in the long run, coupled with the fact that the Purchaser is offering to acquire the interest in Target Company at a consideration far exceeding its net asset value, the Directors are of the view that the Disposal is financially rewarding to both the Company and its Shareholders in the long-term.

Prior to the Realignment, the Target Company was the operating entity that owned the majority of the machineries and moulds used to produce all the toys sold by the Group, whereas after the Realignment, the New Company will take over the business, operations and production activities of the Target Company at the same location under the Leaseback Arrangement. The New Company will also employ sufficient manpower to maintain the usual production and operation of the Remaining Group. Therefore, after completion of the Disposal, the Remaining Group will continue to carry on its existing toy manufacturing business through the New Company. While some moulds and machineries with a total book value of approximately HK$15 million as at 31 August 2019 will be retained in the Target Company after the Realignment and will be disposed of along with the Target Company, they represent a lowly-utilized and obsolete product line which contributed only approximately 5.7% of the Group's total revenue for the year ended 30 April 2019.

Accordingly, the impact on the Group's operating performance due to the disposal of these assets is expected to be limited and the savings on the disposal of such moulds are expected to exceed the impact on the loss of sales. Further, new products developed and launched by the Group are also expected to make up for the reduction of revenue. Therefore, it is expected that the Group's production will not be materially affected by the Disposal.

The Directors are of the view that the terms of the Disposal and the Agreement are fair and reasonable and the entering into of the Agreement is in the interest of the Company and the Shareholders as a whole.

SPECIAL CASH DIVIDEND

Conditional upon completion of the Disposal, a special cash dividend ("**Special Cash Dividend**") which is expected to be approximately HK$150 million will be paid to the Shareholders whose names appear in the register of members of the Company on a record day to be fixed and announced. Payment of the Special Cash Dividend is conditional on the completion of Disposal having taken place, which in turn is conditional upon the approval of the Disposal, the Agreement and the transactions contemplated thereunder by the Shareholders at the EGM. The Company will make a further announcement as soon as practicable after completion of the Disposal to set out the details regarding the actual amount of the Special Cash Dividend to be declared and payable, the record date, the pay-out date of the Special Cash Dividend and closure of register of members for determining entitlement to the Special Cash Dividend.

The Special Cash Dividend will be paid out of the net proceeds from the Disposal after taking into account the future business development and operation and working capital needs of the Group, and will represent approximately 56% of the net proceeds from the Disposal. The Special Cash Dividend will allow the Shareholders to immediately realise the value from their shareholdings in the Company.

If the ordinary resolution approving the Disposal, the Agreement and the transactions contemplated thereunder is not passed by the Shareholders at the EGM or if Completion does not take place for any reason, the Special Cash Dividend will not be paid to the Shareholders. Shareholders and potential investors of the Company should therefore exercise caution when dealing in or investing in the securities of the Company.

INFORMATION ON THE GROUP, THE VENDOR AND THE PURCHASER

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacturing and selling of toy products.

The Vendor is a wholly-owned subsidiary of the Company principally engaged in toys development, manufacturing activities and managing the production facilities in Tangxia, Dongguan, Guangdong Province, the PRC.

The Purchaser is a company incorporated in the PRC with limited liability and is principally engaged in investment holding. So far as the Company is aware based on publicly-available information, the Purchaser is ultimately owned as to 60% by Mr. Zhou Bing-hui (周炳輝) and as to 40% by Mr. Yin Zi-xiang (殷自想).

IMPLICATIONS UNDER THE LISTING RULES

As the highest applicable percentage ratio calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Disposal exceeds 75%, the Disposal constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules and is therefore subject to reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, KLH Capital held 750,000,000 Shares representing 75% of the issued share capital of the Company as at the Latest Practicable Date. KLH Capital had undertaken to the Purchaser that it shall appoint a representative to attend the EGM and vote in favour of the resolution(s) to approve the Disposal, the Agreement and the transactions contemplated thereunder at the EGM.

Completion of the Disposal is conditional upon the satisfaction of the condition set out in the section headed "Condition Precedent" in this circular. Accordingly, the Disposal may or may not proceed. The payment of the Special Cash Dividend is conditional upon completion of the Disposal. Shareholders and potential investors of the Company should therefore exercise caution when dealing in the securities of the Company.

EGM

A notice convening the EGM is set out on pages EGM-1 to EGM-2 of this circular. An ordinary resolution will be proposed at the EGM to seek Shareholders' approval of the Disposal, the Agreement and the transactions contemplated thereunder. As far as the Company is aware, having made all reasonable enquiries, none of the Shareholders is materially interested in the Disposal, the Agreement and the transactions contemplated thereunder and therefore no Shareholder is required to abstain from voting on the relevant resolution at the EGM.

Pursuant to Rule 13.39(4) of the Listing Rules and Article 72 of the Articles of Association, a resolution put to vote at a general meeting of the Company is to be decided by poll. The Chairman of the EGM will therefore put the resolution to be proposed at the EGM to be voted by way of poll. After the conclusion of the EGM, the results of the poll will be published on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (www.kiddieland.com.hk).

On a poll, every Shareholder present in person or by proxy or (being a corporation) by its duly authorised representative shall have one vote for each Share registered in his/her name in the register of members of the Company. A Shareholder entitled to more than one vote need not use all his/her votes or cast all the votes he/she uses in the same way.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (www.kiddieland.com.hk). Whether or not you intend to attend the EGM, you are required to complete the form of proxy in accordance with the instruction printed thereon and return it to the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the above meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

RECOMMENDATION

Having regard to the matters set out in the section headed "Reasons for and benefits of the Disposal" above, the Directors consider that the terms of the Disposal and the Agreement are fair and reasonable and the entering into of the Agreement is in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Disposal, the Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is drawn to the financial and other information as set out in the appendices to this circular.

Yours faithfully
By order of the Board
Kiddieland International Limited
LO Hung
Chairman

1. THREE YEARS FINANCIAL INFORMATION

Details of the audited financial information of the Group for the three financial years ended 30 April 2017, 2018 and 2019 are disclosed in the Prospectus and the annual reports of the Company for the financial years ended 30 April 2018 and 2019 respectively, all of which have been published and are available on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.kiddieland.com.hk).

2. INDEBTEDNESS STATEMENT

As at the close of business on 31 August 2019, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had total indebtedness of approximately HK$174,605,000 comprising (i) bank overdraft of approximately HK$1,713,000 (of which approximately HK$1,632,000 was guaranteed by corporate guarantees provided by the Company and two of its subsidiaries incorporated in Hong Kong and the remaining balance of approximately HK$81,000 was secured by properties owned by companies controlled by certain Controlling Shareholders); (ii) bank borrowings of approximately HK$168,167,000 (of which approximately HK$7,896,000 was guaranteed by corporate guarantees provided by the Company and two of its subsidiaries incorporated in Hong Kong, and the remaining balance of approximately HK$160,271,000 was secured by properties owned by companies controlled by certain Controlling Shareholders); (iii) lease liabilities of approximately HK$4,725,000 payable to a company controlled by certain Controlling Shareholders.

As at the close of business on 31 August 2019, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had contingent liabilities in relation to irrecoverable standby letter of credit of approximately HK$2,210,000.

Save as aforesaid or otherwise disclosed herein and apart from intra-group liabilities and normal trade payables, the Group did not have, as at the close of business on 31 August 2019, any mortgages, charges, debentures, debt securities issued and outstanding, and authorised or otherwise created but unissued, outstanding borrowings or indebtedness in the nature of borrowings including term loans, bank overdrafts, liabilities under acceptances, acceptance credits, hire purchase and finance lease commitments or other similar indebtedness, or any guarantees or other material contingent liabilities.

Save as disclosed in this section, the Directors are not aware of any material adverse change in the Group's indebtedness and contingent liabilities since 31 August 2019.

3. MATERIAL ADVERSE CHANGE

The Directors confirm that as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 30 April 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up.

4. WORKING CAPITAL

All the Group's banking facilities are subject to renewal on annual basis. The Directors are confident that all these banking facilities will be renewed at the end of their terms based on the past experience.

The Directors are of the opinion that, after taking into account the Disposal, the Realignment, the Intra-group Transfer, the financial resources available to the Group including internally generated funds and the assumptions that the banks will not accelerate repayments by exercising the repayment on demand clause; and the existing banking facilities available to the Group will be renewed at the end of their terms and extended covering at least the next 12 months from the date of publication of this circular, the Group has sufficient working capital for its present requirements and to satisfy its requirements for at least the next 12 months from the date of publication of this circular in the absence of unforeseen circumstances.

5. FINANCIAL AND TRADING PROSPECT OF THE REMAINING GROUP

Part of the net proceeds from the Disposal after deducting the amount of the Special Cash Dividend is intended to be applied for the repayment of certain indebtedness and as general working capital of the Group, thereby the financial costs after completion of the Disposal will be reduced and the leverage ratio of the Group will be improved.

After completion of the Disposal, the management of the Group will continue to focus on developing the toy business, which has always been the core business of the Group. While the collapse of several major retailers around the world and the poor global economies have adversely impacted the toy business, the successful elimination of an obsolete product line along with the Disposal will help lift the overall profit margin of the Group. Furthermore, the removal of certain assets associated with the Disposal will also improve the financial position of the Group as less depreciation will be accounted for subsequently.

It is expected that the Disposal will not affect the normal operations of the Group and the toy manufacturing business of the Group is expected to continue through the New Company without any disruption. The only problem in the near future may be for the management of the Group to consider the production facility relocation option. With the Leaseback Arrangement, the management will have up to three years to identify the most appropriate solution, including (1) extending the term of the Leaseback Arrangement, (2) relocating to a more economical region in the PRC where both labour as well as factory space are cheaper than Dongguan, or (3) vacating from the PRC altogether and setting up a new manufacturing facility in a foreign country with cheaper labour cost, such as Vietnam. Given that the Leaseback Arrangement is for a term of three years, the Group has more flexibilities to explore these options and any other new alternatives which may become available carefully, and ultimately decide on a strategy going forward.

6. MANAGEMENT DISCUSSION AND ANALYSIS OF THE REMAINING GROUP

Set out below is the management discussion and analysis of the Remaining Group's business and performance for each of the three years ended 30 April 2017, 2018 and 2019.

For the financial year ended 30 April 2019

Business and financial review

For the year ended 30 April 2019, the Remaining Group recorded a total revenue of approximately HK$282.2 million (2018: approximately HK$307.3 million). The loss attributable to the owners of the Remaining Group for the year ended 30 April 2019 was approximately HK$6.5 million (2018: approximately HK$11.0 million). Decrease in revenue was mainly attributed to (i) the cessation of sales to Toys "R" Us ("**TRU**") in U.S. and its various former subsidiaries in Europe; and (ii) the slugging economy in Europe. Due to the absence of listing expenses and the absence of the provisions of impairment on TRU's trade receivables, offset by the decrease in revenue and the non-cash shared-based payment expenses recognised, the loss after tax decreased by 40.9% to approximately HK$6.5 million for the year.

Liquidity and financial resources

During the year ended 30 April 2019, the Remaining Group mainly financed its working capital by internal resources and bank borrowings. As at 30 April 2019, cash and cash equivalents amounted to approximately HK$19.2 million (2018: approximately HK$43.1 million). The decrease was mainly due to the working capital fund used for purchasing raw materials to meet the early production schedule and the utilisation of the proceeds from the initial public offering of the Shares according to the future plans during the year.

As at 30 April 2019, the Remaining Group's total bank borrowings were approximately HK$138.2 million (2018: approximately HK$123.2 million). The Remaining Group's financial gearing, based on the total bank borrowings compared to the total equity, was 103.3% (2018: 86.2%). All bank borrowings were subject to floating interest rates. The Remaining Group will maintain the availability of bank facilities and negotiate with banks to increase the borrowings limit for working capital needs, if necessary. Subsequent to the financial year end, the Remaining Group refinanced a borrowing of HK$30 million with a 5-year committed term loan which is repayable over 5 years by monthly equal instalment.

Treasury policy and foreign currency risk management

The Remaining Group's sales and purchases are mainly denominated in Hong Kong Dollar and US Dollar, and for production factory located in the PRC, expenses incurred there are denominated in Renminbi.

Since Hong Kong Dollar remains pegged to US Dollar, the Remaining Group does not foresee a substantial exposure in this area, and will closely monitor the trend of Renminbi to see if any action is required.

The bank borrowings are denominated in Hong Kong Dollar and US Dollar and are mainly at floating interest rate.

As at 30 April 2019, the Remaining Group had not entered into any financial instrument for the hedging of foreign currency.

Employees and remuneration policy

As at 30 April 2019, the Remaining Group employed 1,042 full-time management, administrative and production staff in Hong Kong and the PRC. The Remaining Group had seasonal fluctuations in the number of workers employed in its production plant while the number of management and administrative staff remained stable. The Remaining Group remunerated its employees based on their performance, experience and prevailing industry practices. The Remaining Group provided a mandatory provident fund scheme (for Hong Kong employees), social security scheme and housing provident fund (for PRC employees), medical insurance and discretionary bonuses and the Company has adopted a share option scheme of which eligible participants includes the Remaining Group's employees.

Significant investment held, material acquisitions and disposal

The Remaining Group did not hold any significant investment during the year.

Charges on assets

As at 30 April 2019, no asset of the Remaining Group (2018: Nil) was pledged as securities to any third parties.

Capital commitments

As at 30 April 2019, the commitments of the Remaining Group for acquisition of property, plant and equipment amounted to HK$0.7 million which have been contracted, but not provided for in the consolidated financial statements.

Contingent liabilities

As at 30 April 2019, the Remaining Group had contingent liabilities in relation to irrevocable standby letter of credit of HK$3.0 million. Save as aforesaid, the Remaining Group did not have any other significant contingent liabilities.

Prospects

The last two years have proven to be the most challenging two years of the Group's history. The diminishing demand of traditional toys is a true phenomenon as electronic gadgets continue to erode the toy market. The emergence of internet sales also plays a huge role in replacing the conventional physical store concept, as more brick & mortar retailers are starting to face difficulties with their normal operations.

Market sentiments remain weak in most parts of the world, and even with the strongest U.S. market, there lies the uncertainties with the trade war talks between China and U.S.. In the event that toys become part of the next wave of tariffed list, the impact on both sales and margin can be adverse and substantial. The supply chain has always been very lean and efficient with U.S. toys sales, and there is unfortunately not much leeway, be it from the supplier or retailer side, to absorb the import duties. Despite that the majority of the impact will eventually be transferred to the end consumers, the anticipated result to the Remaining Group would still be negative in terms of reduced sales and at lower prices.

The Remaining Group continues to make efforts in developing its internet business sales. The Directors see an opportunity in expanding its product offerings through online sales but the business model is much more costly than traditional sales. Accordingly, the management has to make very cautious moves strategically to protect the interest of the Remaining Group and the Shareholders.

From a production standpoint, prices of plastic raw materials are finally dropping back to a more manageable level this year. Unfortunately, labour supply remains unpredictable and scarce and raising wages is the only solution to solicit more workers. The Remaining Group also continues to upgrade and introduce more automation to the manufacturing process to replace some of the labour intensive procedures.

In order to develop the Remaining Group's business, the management of the Group will continue to evaluate up and coming animation characters and enter into new licensing arrangements when it sees fit. The 6V rechargeable battery powered ride-ons remains a viable business segment that the Remaining Group places a strong emphasis on, and it will continue to develop this category of product and build on its success. The Remaining Group is also revamping its metal tricycles design as it sees an opportunity arising that can lead to more incremental business.

For the financial year ended 30 April 2018

Business and financial review

For the year ended 30 April 2018, the Remaining Group recorded a total revenue of approximately HK$307.3 million (2017: approximately HK$347.4 million). The loss attributable to the owners of the Remaining Group for the year ended 30 April 2018 was approximately HK$11.0 million (2017: net gain of approximately HK$25.7 million). Decrease in revenue was mainly attributed to (i) the bankruptcy filing of TRU in U.S. and its various subsidiaries in Europe; and (ii) the slugging economy in Europe.

Due to the absence of non-recurring tax credits and the decrease in listing expenses recognised for the year, which coupled with the provision of impairment on trade receivables and inventories in relation to bankruptcy filing cases of TRU, the Remaining Group recorded a net loss of approximately HK$11.0 million for the year (2017: net profit of approximately HK$25.7 million).

Liquidity and financial resources

During the year ended 30 April 2018, the Remaining Group mainly financed its working capital by internal resources and bank borrowings. As at 30 April 2018, cash and cash equivalents amounted to approximately HK$43.1 million (2017: approximately HK$6.5 million). The increase was mainly due to the additional capital of HK$81.4 million raised from the global offering of the Company's shares in September 2017 with an offsetting effect from less bank borrowings drawn during the year.

As at 30 April 2018, the Remaining Group's total bank borrowings were approximately HK$123.2 million (2017: approximately HK$174.0 million). The Remaining Group's financial gearing, based on the total bank borrowings compared to the total equity, was 86.2% (2017: 114.2%). The Remaining Group had total banking facilities of approximately HK$199.1 million. All bank borrowings were subject to floating interest rates.

Treasury policy and foreign currency risk management

The Remaining Group's sales and purchases are mainly denominated in Hong Kong Dollar and US Dollar, and for production factory located in the PRC, expenses incurred there are denominated in Renminbi.

Since Hong Kong Dollar remained pegged to US Dollar, the Remaining Group did not foresee a substantial exposure in this area, and would closely monitor the trend of Renminbi to see if any action would be required.

The bank borrowings are denominated in Hong Kong Dollar and US Dollar and are mainly at floating interest rate.

As at 30 April 2018, the Remaining Group had not entered into any financial instrument for the hedging of foreign currency.

Employees and remuneration policy

As at 30 April 2018, the Remaining Group employed 1,234 full-time management, administrative and production staff in Hong Kong and the PRC. The Remaining Group had seasonal fluctuations in the number of workers employed in its production plant while the number of management and administrative staff remained stable. The Remaining Group remunerated its employees based on their performance, experience and prevailing industry practices. The Remaining Group provided a mandatory provident fund scheme (for Hong Kong employees), social security scheme and housing provident fund (for PRC employees), medical insurance and discretionary bonuses and the Company has adopted a share option scheme of which eligible participants includes the Remaining Group's employees.

Significant investment held, material acquisitions and disposal

The Remaining Group did not hold any significant investment during the year.

Charges on assets

As at 30 April 2018, no asset of the Remaining Group (2017: Nil) was pledged as securities to any third parties.

Capital commitments

As at 30 April 2018, the commitments of the Remaining Group for acquisition of property, plant and equipment amounted to HK$1.1 million which have been contracted, but not provided for in the consolidated financial statements.

Contingent liabilities

As at 30 April 2018, the Remaining Group had contingent liabilities in relation to irrevocable standby letter of credit of HK$4.4 million. Save as aforesaid, the Remaining Group did not have any other significant contingent liabilities.

Prospects

The collapse of the TRU empire created an adverse impact on the Company. While some of the lost business was expected to be picked up by other existing retailers, there would remain a certain market share that would be lost. To counter this situation, the Group looked into two different means to grow its business. One was to expand into untapped or underexploited customer base, and the other was to broaden its product range and compete in new marketplace.

At the end of year 2017, the Company decided to invest into enhancing its logistics capabilities in U.S. by partnering up with a third-party warehouse so that the Group's internet sales could grow more rapidly with major dotcom customers. The result was a direct ship program in which the Group would be responsible for shipping the goods directly to consumers once orders have been placed on different retail websites. This new arrangement simplified business transactions for internet customers, and subsequently led to more business opportunities for the Group. The Directors believed the investment would be rewarding in the long-term as the internet business is growing at increasing rates all over the world.

During the second half of the financial year ended 30 April 2018, the Company had successfully developed a range of 6V rechargeable motorised ride-ons. This represented a brand new category which the Company had never attempted before. On average, the selling price of these new products was more than double compared to the regular foot-to-floor ride-ons which the Company has made in the last 20 years. So far the sales results had been encouraging and the Directors believed this new category would contribute significantly to the growth going forward. The Company would continue to develop this line and broaden its product offerings.

Other challenges the Group faced in the financial year ended 30 April 2018 were increase in the price of raw materials and labour costs and the continuing currency appreciation of Renminbi against US Dollars, which led to an erosion of the gross profit margin. In order to rectify these negative effects, the Group took measures such as imposing a price increase so that the cost increase can be transferred back to the customers and at the same time introducing more automation in the manufacturing process, and conducting studies to reengineer some of the Group's product lines in order to yield savings on production fronts.

For the financial year ended 30 April 2017

Business and financial review

For the year ended 30 April 2017, the Remaining Group recorded a total revenue of approximately HK$347.4 million. The profit attributable to the owners of the Remaining Group for the year ended 30 April 2017 was approximately HK$25.6 million.

Liquidity and financial resources

During the year ended 30 April 2017, the Remaining Group mainly financed its working capital by internal resources and bank borrowings. As at 30 April 2017, cash and cash equivalents amounted to approximately HK$6.5 million.

As at 30 April 2017, the Remaining Group's total bank borrowings were approximately HK$174.0 million. The Remaining Group's financial gearing, based on the total bank borrowings compared to the total equity, was 114.2%. The Remaining Group had total banking facilities of approximately HK$398.4 million. All bank borrowings were subject to floating interest rates.

Treasury policy and foreign currency risk management

The Remaining Group's sales and purchases are mainly denominated in Hong Kong Dollar and US Dollar. And for production factory located in the PRC, expenses incurred there are denominated in Renminbi.

Since Hong Kong Dollar remained pegged to US Dollar, the Remaining Group did not foresee a substantial exposure in this area, and would closely monitor the trend of Renminbi to see if any action would be required.

The bank borrowings are denominated in Hong Kong Dollar and US Dollar and are mainly at floating interest rate.

As at 30 April 2017, the Remaining Group had not entered into any financial instrument for the hedging of foreign currency.

Employees and remuneration policy

As at 30 April 2017, the Remaining Group employed 1,356 full-time management, administrative and production staff in Hong Kong and the PRC. The Remaining Group had seasonal fluctuations in the number of workers employed in its production plant while the number of management and administrative staff remained stable. The Remaining Group remunerated its employees based on their performance, experience and prevailing industry practices. The Remaining Group provided a mandatory provident fund scheme (for Hong Kong employees), social security scheme and housing provident fund (for PRC employees), medical insurance and discretionary bonuses.

Significant investment held, material acquisitions and disposal

The Remaining Group did not hold any significant investment during the year.

Charges on assets

As at 30 April 2017, no asset of the Remaining Group was pledged as securities to any third parties.

Capital commitments

As at 30 April 2017, the commitments of the Remaining Group for acquisition of property, plant and equipment amounted to HK$1.7 million which have been contracted, but not provided for in the consolidated financial statements.

Contingent liabilities

As at 30 April 2017, the Remaining Group had contingent liabilities in relation to irrevocable standby letter of credit of HK$3.9 million. Save as aforesaid, the Remaining Group did not have any other significant contingent liabilities.

Prospects

The Company had in the financial year ended 30 April 2017 submitted an application for the listing of its shares on the Main Board of the Stock Exchange. It was expected that additional capital raised from the global offering in connection with the listing would provide the Group with the funds to enhance its production plant and accelerate the expansion of its product range.

The following is the text of a report received from the Company's reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong for the purpose of incorporation into this circular. The unaudited historical financial information in this Appendix does not reflect the financial position and performance of the Target Company at the Completion, due to, among others, the Intra-group Transfer and the Realignment.

pwc 羅兵咸永道

REPORT ON REVIEW OF HISTORICAL FINANCIAL INFORMATION OF 東莞童園實業有限公司 (DONGGUAN KIDDIELAND INDUSTRIAL CO., LTD.)
(incorporated in the People's Republic of China with limited liability)

To the Board of Directors of Kiddieland International Limited

Introduction

We have reviewed the historical financial information set out on pages II-3 to II-7 which comprise the statements of financial position of 東莞童園實業有限公司 (Dongguan Kiddieland Industrial Co., Ltd. (the "**Target Company**") as at 30 April 2017, 2018 and 2019, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the years ended 30 April 2017, 2018 and 2019 (the "**Relevant Period**") and explanatory notes (the "**Historical Financial Information**"). The Historical Financial Information has been prepared solely for the purpose of inclusion in the circular of Kiddieland International Limited (the "**Company**") dated 23 October 2019 (the "**Circular**") issued in connection with the disposal of 100% equity interest in the Target Company in accordance with paragraph 14.68(2)(a)(i)(A) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rule**").

The directors of the Company (the "**Directors**") are responsible for the preparation of the Historical Financial Information of the Target Company in accordance with the basis of preparation set out in note 2 to the Historical Financial Information and paragraph 14.68(2)(a)(i) of the Listing Rule. The Directors are also responsible for such internal control as management determines is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error. The Historical Financial Information does not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1 *Presentation of Financial Statements* or an interim financial report as defined in Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). Our responsibility is to express a conclusion on this Historical Financial Information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Scope of Review

We conducted our review 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 HKICPA and with reference to Practice Note 750, *Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal* issued by HKICPA. A review of the historical financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Historical Financial Information of the Target Company for the Relevant Period is not prepared, in all material respects, in accordance with the basis of preparation set out in note 2 to the Historical Financial Information.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 23 October 2019

I HISTORICAL FINANCIAL INFORMATION OF THE TARGET COMPANY

UNAUDITED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 30 April		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	134,159	128,699	119,716
Cost of sales	(129,252)	(121,530)	(112,547)
Gross profits	4,907	7,169	7,169
Other income	107	850	360
Other gains/(losses), net	2,021	(776)	(754)
Selling and distribution expenses	(524)	(566)	(149)
Administrative expenses	(2,496)	(2,078)	(2,780)
Operating profit	4,015	4,599	3,846
Finance income	10	5	4
Profit before taxation	4,025	4,604	3,850
Income tax expense	(1,457)	(1,151)	(922)
Profit for the year	2,568	3,453	2,928
Other comprehensive (loss)/income for the year			
Item that may not be reclassified to profit or loss:			
Currency translation differences	(2,901)	6,073	(3,735)
Other comprehensive (loss)/income for the year, net of tax	(2,901)	6,073	(3,735)
Total comprehensive (loss)/income for the year	(333)	9,526	(807)

UNAUDITED CONDENSED STATEMENTS OF FINANCIAL POSITION

	As at 30 April		
	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*
ASSETS			
Non-current assets			
Prepaid operating lease	7,561	8,021	7,299
Property, plant & equipment	36,123	51,059	53,634
Deferred income tax asset	—	845	909
	43,684	59,925	61,842
Current assets			
Inventories	2,208	1,980	1,127
Unbilled revenue	25,469	38,421	—
Contract assets	—	—	5,810
Other receivables, deposits and prepayment	2,358	941	1,687
Amount due from immediate holding company	15,493	—	24,789
Income tax recoverable	—	—	713
Cash and bank balance	1,349	172	166
	46,877	41,514	34,292
Total assets	90,561	101,439	96,134
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital	54,000	54,000	54,000
Capital reserves	7,159	7,159	7,159
Exchange reserves	(5,367)	706	(3,029)
Retained earnings	6,258	9,711	12,639
Total equity	62,050	71,576	70,769
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	400	—	—
Current liabilities			
Trade and bills payables	5,672	4,707	3,857
Accruals and other payables	11,036	14,151	11,321
Amount due to a fellow subsidiary	—	—	497
Amount due to immediate holding company	11,036	11,005	9,690
Tax payables	367	—	—
	28,111	29,863	25,365
Total liabilities	28,511	29,863	25,365
Total equity and liabilities	90,561	101,439	96,134

UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Capital reserves	Exchange reserves	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 30 April 2017					
At 1 May 2016	46,000	7,159	(2,466)	3,690	54,383
Profit for the year	—	—	—	2,568	2,568
Other comprehensive loss:					
— Currency translation differences	—	—	(2,901)	—	(2,901)
Total comprehensive loss	—	—	(2,901)	2,568	(333)
Transaction with owners:					
Capital injection	8,000	—	—	—	8,000
	8,000	—	—	—	8,000
As at 30 April 2017	54,000	7,159	(5,367)	6,258	62,050
For the year ended 30 April 2018					
At 1 May 2017	54,000	7,159	(5,367)	6,258	62,050
Profit for the year	—	—	—	3,453	3,453
Other comprehensive income:					
— Currency translation differences	—	—	6,073	—	6,073
Total comprehensive income	—	—	6,073	3,453	9,526
As at 30 April 2018	54,000	7,159	706	9,711	71,576
For the year ended 30 April 2019					
At 1 May 2018	54,000	7,159	706	9,711	71,576
Profit for the year	—	—	—	2,928	2,928
Other comprehensive loss:					
— Currency translation differences	—	—	(3,735)	—	(3,735)
Total comprehensive loss	—	—	(3,735)	2,928	(807)
As at 30 April 2019	54,000	7,159	(3,029)	12,639	70,769

UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS

	Year ended 30 April		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Cash flows from operating activities			
Net cash generated from operations	7,191	24,168	13,785
Interest received	10	5	4
Income tax paid	(866)	(2,805)	(986)
Net cash generated from operating activities	6,335	21,368	12,803
Cash flows from investing activities			
Purchase of property, plant and equipment	(9,523)	(22,627)	(12,829)
Payments for prepaid operating lease	(7,658)	—	—
Proceeds from disposal of property, plant and equipment	—	—	30
Net cash used in investing activities	(17,181)	(22,627)	(12,799)
Cash flows from financing activities			
Proceeds received from capital injection by holding company	8,000	—	—
Net cash generated from financing activities	8,000	—	—
Net (decrease)/increase in cash and cash equivalents	(2,846)	(1,259)	4
Effect on currency translation differences	206	82	(10)
Cash and cash equivalents at beginning of the year	3,989	1,349	172
Cash and cash equivalents at end of the year	1,349	172	166

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 General information

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

The Target Company is a limited liability company incorporated in the People's Republic of China (the "**PRC**"). The address of its registered office is 東莞市塘廈鎮高麗工業區.

Taking part in the toy business of the Company and its subsidiaries (collectively, the "**Group**"), the Target Company is principally engaged in manufacturing of toy products in the PRC to support the Group's toy business.

2 Basis of preparation

The Historical Financial Information has been prepared in accordance with paragraph 14.68(2)(a)(i)(A) the Listing Rules and is prepared by the Directors solely for the purpose of inclusion in the Circular. It does not contain sufficient information to constitute a complete set of financial statements as described in Hong Kong Accounting Standard 1 "Presentation of Financial Statements" nor a set of condensed financial statements as defined in Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. It should be read in connection with the annual report of the Company for the year ended 30 April 2019.

The Historical Financial Information has been prepared in accordance with the accounting policies adopted by the Group as set out in the annual report of the Company for the year ended 30 April 2019. These policies have been consistently applied to all the periods presented, except for the new accounting policies, Hong Kong Financial Reporting Standard 9 "Financial Instruments" and Hong Kong Financial Reporting Standard 15 "Revenue from Contracts with Customers", which were initially applied from 1 May 2018.

3 Subsequent events

Subsequent to 30 April 2019, all the remaining property, plant and equipment and lease related assets of DG Kiddieland Factory, a contract processing factory wholly owned by the Group, were transferred to the Target Company in mid-June 2019.

Subsequent to 30 April 2019, certain property, plant and equipment were assigned to a fellow subsidiary of the Target Company in the PRC.

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

The unaudited pro forma financial information of the Remaining Group (the "**Unaudited Pro Forma Financial Information**") presented below is prepared to illustrate (a) the financial position of the Remaining Group as if the Disposal, the Intra-group Transfer and the Realignment had been completed on 30 April 2019; and (b) the financial performance and cash flows of the Remaining Group for the year ended 30 April 2019 as if the Disposal, the Intra-group Transfer and the Realignment had been completed on 1 May 2018. This unaudited pro forma financial information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not purport to represent the true picture of the financial position of the Remaining Group as at 30 April 2019 or at any future date had the Disposal, the Intra-group Transfer and the Realignment been completed on 30 April 2019 or the financial performance and cash flows of the Group for the year ended 30 April 2019 or for any future period had the Disposal, the Intra-group Transfer and the Realignment been completed on 1 May 2018.

The Unaudited Pro Forma Financial Information is prepared based on the consolidated statement of financial position of the Group as at 30 April 2019, the consolidated statement of comprehensive income and the consolidated statement of cash flows of the Group for the year ended 30 April 2019 extracted from the consolidated financial statements of the Group for the year ended 30 April 2019 as set out in the 2019 annual report of the Company, the unaudited historical financial information of the Target Company as set out in Appendix II to this circular after giving effect to the pro forma adjustments described in the notes prepared in accordance with Rules 4.29 and 14.68(2)(a)(ii) of the Listing Rules.

Unaudited Pro Forma Consolidated Statement of Financial Position of the Remaining Group

	Audited consolidated statement of financial position of the Group as at 30 April 2019	Pro forma adjustments			Unaudited pro forma consolidated statement of financial position of the Remaining Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2a*	*Note 2b*	*Note 2c*	
ASSETS					
Non-current assets					
Prepaid operating lease	12,330	(7,299)	(5,031)	3,845	3,845
Property, plant & equipment	119,333	(53,634)	(25,065)		40,634
Intangible assets	11,853				11,853
Deferred income tax assets	8,069	(909)		(848)	6,312
Other receivable and prepayment	72			34,178	34,250
	151,657				96,894
Current assets					
Inventories	118,079	(1,127)			116,952
Contract assets	—	(5,810)		5,810	—
Trade and bills receivables	25,348				25,348
Other receivables, deposits and prepayments	5,433	(1,687)		4,717	8,463
Amount due from the Remaining Group	—	(24,789)		24,789	—
Income tax recoverable	1,137	(713)			424
Cash and bank balances	19,392	(166)		327,701	346,927
	169,389				498,114
Total assets	321,046				595,008
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY					
Share capital	100,000				100,000
Other reserves	6,242				6,242
Exchange reserves	(2,409)			3,029	620
Retained earnings	24,111			190,539	214,650
Total equity	127,944				321,512

	Audited consolidated statement of financial position of the Group as at 30 April 2019	Pro forma adjustments			Unaudited pro forma consolidated statement of financial position of the Remaining Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2a*	*Note 2b*	*Note 2c*	
LIABILITIES					
Non-current liabilities					
Deferred income tax liabilities	4,337				4,337
Other payables	58				58
	4,395				4,395
Current liabilities					
Trade and bills payables	21,240	(3,857)			17,383
Other payables and accruals	27,485	(11,321)		88,803	104,967
Contract liabilities	1,371				1,371
Amount due to the Remaining Group	—	(10,187)	(65,536)	75,723	—
Bank borrowings	138,233				138,233
Tax payables	378			6,769	7,147
	188,707				269,101
Total liabilities	193,102				273,496
Total equity and liabilities	321,046				595,008

Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Remaining Group

	Audited consolidated statement of comprehensive income of the Group for the year ended 30 April 2019	Pro forma adjustments						Unaudited pro forma consolidated statement of comprehensive income of the Remaining Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 3a*	*Note 3b*	*Note 3c*	*Note 3d*	*Note 3e*	*Note 3f*	
Revenue	289,049	(119,716)	112,915					282,248
Cost of sales	(250,191)	112,547	(106,153)	4,740	(1,375)			(240,432)
Gross profit	38,858							41,816
Other income	731							731
Other gains, net	2,102	394	(394)			241,959		244,061
Selling and distribution expenses	(11,593)	149	(149)					(11,593)
Administrative expenses	(34,438)	2,780	(2,780)					(34,438)
Reversal of impairment loss on financial assets, net	731							731
Operating (loss)/profit	(3,609)							241,308
Finance income	8	(4)	4				1,504	1,512
Finance expenses	(5,231)							(5,231)
Finance costs, net	(5,223)							(3,719)
(Loss)/profit before taxation	(8,832)							237,589
Income tax expense	(529)	922	(861)	(391)	113	(38,648)		(39,394)
(Loss)/profit for the year	(9,361)							198,195
Other comprehensive loss for the year								
Item that may be reclassified to profit or loss								
Currency translation differences	(4,825)	3,735	(3,735)					(4,825)
Item that reclassified to profit or loss								
Realisation of currency translation difference upon disposal of a subsidiary	—					(706)		(706)
Other comprehensive loss for the year, net of tax	(4,825)							(5,531)
Total comprehensive (loss)/income for the year	(14,186)							192,664

Unaudited Pro Forma Consolidated Statement of Cash flows of the Remaining Group

	Audited consolidated statement of cash flows of the Group for the year ended 30 April 2019	Pro forma adjustments					Unaudited pro forma consolidated statement of cash flows of the Remaining Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 3a*	*Note 3b*	*Note 3c*	*Note 3d*	*Note 3e*	
Cash flows from operating activities							
Net cash generated from operations	17,288	(13,785)	13,378	(4,740)	1,375		13,516
Interest received	8	(4)	4				8
Interest paid	(5,308)						(5,308)
Income tax refunded	677	986	(925)	391	(113)		1,016
Net cash generated from operating activities	12,665						9,232
Cash flows from investing activities							
Purchases of property, plant and equipment	(31,720)	12,829	(12,829)				(31,720)
Proceeds from disposal of property, plant and equipment	60	(30)					30
Settlements of liabilities arising from acquisitions of licenses	(19,889)						(19,889)
Net proceeds received from disposal of a subsidiary	—					327,701	327,701
Net cash (used in)/generated from investing activities	(51,549)						276,122
Cash flows from financing activities							
Proceeds from bank borrowings	363,739						363,739
Repayment of bank borrowings	(329,431)						(329,431)
Net cash generated from financing activities	34,308						34,308
Net (decrease)/increase in cash and cash equivalents	(4,576)						319,662
Effect on exchange rate differences	(37)	10	(10)				(37)
Cash and cash equivalents and bank overdrafts at beginning of the year	5,585						5,585
Cash and cash equivalents and bank overdrafts at end of the year	972						325,210

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

1. The amounts are extracted from the audited consolidated statement of financial position as at 30 April 2019, the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year then ended as set out in the published annual report of the Group for the year ended 30 April 2019.

2. The following pro forma adjustments have been made to the unaudited pro forma consolidated statement of financial position, assuming the Disposal, the Intra-group Transfer and Realignment had taken place on 30 April 2019:

   a. The adjustment represents de-recognition of carrying amounts of assets and liabilities of the Target Company as at 30 April 2019, assuming the Disposal had taken place on 30 April 2019. The assets and liabilities of the Target Company are extracted from the unaudited condensed statement of financial position of the Target Company as set forth in Appendix II to this Circular.

   b. The property, plant and equipment and prepaid operating lease held by the Target Company at the Completion Date will take into account the asset transfers between the Remaining Group and the Target Company as result of the Intra-group Transfer and Realignment (together the "**Asset Transfers**"). The adjustment represents net effect of recognition of assets transferred to the Target Company and derecognition of these assets transferred out by the Target Company, assuming the Intra-group Transfer and Realignment had taken place on 30 April 2019, respectively and based on the carrying amounts as recorded at the consolidation level excluding tax impact.

	Notes	*HK$'000*
Intra-group Transfer of certain prepaid operating lease and property, plant and equipment from the Remaining Group to the Target Company	(i)	84,957
Less: Assignment of certain property, plant and equipment from the Target Company to the Remaining Group for the Realignment	(ii)	(19,421)
Total consideration of the Asset Transfers	(iii)	65,536
Less: Reversal of unrealised gains from intra-group assets transfer between the Target Company and the Remaining Group	(iv)	(35,440)
		30,096

Notes

(i) Subsequent to 30 April 2019, the Remaining Group completed the Intra-group Transfer and transferred property, plant and equipment and prepaid operating lease at the consideration of HK$84,957,000 to the Target Company.

(ii) Subsequent to 30 April 2019, the Target Company assigned property, plant and equipment to the new subsidiary of the Group established in the PRC in October 2018 (the "**New Company**") at a consideration of HK$19,421,000.

(iii) The consideration for the Asset Transfers would be settled through the Group's current accounts. Such net book values include unrealised gains arisen from the intra-group transactions in prior years.

(iv) Amount represents consolidation adjustment to reverse the impact of unrealised gains from the transfers of assets within the Group.

c. The adjustment represents the estimated gain on disposal assuming the Disposal, the Realignment and Intra-group Transfer had taken place and completed on 30 April 2019 and is calculated as follows:

	Notes	*HK$'000*
Cash consideration		
Consideration received in cash upon completion of the Disposal	(i)	327,701
Present value of the remaining consideration receivable after 18 months from the completion of the Disposal	(i)	34,178
Excess amount of tax and related surcharges borne by the Purchaser	(ix)	4,717
		366,596
Non-cash consideration		
Estimated fair value for the Leaseback Arrangement	(ii)	3,845
Total consideration		370,441
(Less)/add:		
Carrying amount of net assets of the Target Company assuming the Intra-group Transfer and Realignment had been completed on 30 April 2019, excluding tax impact	(iii)	(35,329)
Estimated severance payment expenses for terminating all labour relationship between the Target Company and its employees	(iv)	(29,364)
Estimated transaction costs related to the Disposal	(v)	(23,529)
Estimated stamp duty in relation to the Disposal	(vi)	(182)
Estimated PRC enterprise income tax charged on the gain on the Disposal calculated at the applicable tax rate	(vii)	(31,011)
Value-added tax and related surcharges incurred on the Intra-group Transfer and the Realignment	(ix)	(4,717)
Estimated Hong Kong profits tax payable in relation to the Disposal calculated at the applicable tax rate	(vii)	(6,769)
Estimated Hong Kong profits tax that set-off with deferred tax assets in relation to the Disposal as a result of utilisation of tax losses carried forward	(vii)	(519)
Reversal of deferred income tax assets as a result of realisation of gain on assets transferred to the Target Company	(x)	(329)
Realisation of exchange reserves upon disposal of Target Company		(3,029)
Waiver for contract assets and net balances due from the Target Company to the Remaining Group	(viii)	(45,124)
		190,539

Notes

(i) Pursuant to the Agreement dated 5 August 2019, the cash consideration for the Disposal is RMB320 million of which RMB288 million would be paid upon completion of Disposal and RMB32 million will be paid on the date one and a half years from the date of the Agreement.

(ii) Pursuant to the Agreement dated 5 August 2019, the Group will enter into a property lease contract ("**Property Lease Contract**") with the Target Company in respect of the factory and buildings (the "**Leaseback**") for 3 years from the date of completion of the Agreement of which the first 18 months are rent free. A non-cash consideration from the Disposal of HK$3,845,000 was recognised under Hong Kong Accounting Standard ("**IAS**") 17 "Leases" for the Leaseback.

(iii) Carrying amount of the Target Company assuming the Intra-group Transfer and Realignment had completed prior to the Disposal is calculated as follows,

	Notes	*HK$'000*
Net assets value of the Target Company as at 30 April 2019 as set out in Appendix II to this Circular		70,769
Addition of prepaid operating lease and property, plant and equipment resulted from the Asset Transfers, net	2(b)	65,536
Increase of amount due to the Remaining Group resulted from the Asset Transfers	2(b)	(65,536)
Reversal of unrealised gains from intra-group transactions in the prior periods	2(b)(iv)	(35,440)
		35,329

(iv) Prior to the Purchaser obtaining 100% interest in the Target Company, the Remaining Group shall terminate all labour relationship between the Target Company and its employees, and shall settle all wages, outstanding fees, insurance and taxes payable in connection with such termination in full. The Group estimated that approximately HK$29,364,000 severance payment expenses will be incurred in this regard.

(v) The estimated transaction costs attributable to the Disposal represents costs and expenses directly incurred for the Disposal of HK$23,529,000 including service fee and professional fee. Such costs and expenses are borne by the Remaining Group.

(vi) The estimated stamp duty in relation to the Disposal represents the PRC stamp tax of HK$182,000, which is calculated at the tax rate of 0.05% on the undiscounted cash consideration.

(vii) Estimated income tax in relation to the gain on the Disposal includes the PRC enterprise income tax, which is determined at a tax rate of 10% on the estimated taxable disposal gain arising from the transfer of equity interest in the Target Company and Hong Kong profits tax in respect of clawback of depreciation allowance claimed in prior years.

(viii) For the purpose of the unaudited pro forma financial information, the balances due to or from the Remaining Group by the Target Company, including the contract assets derived from provision of subcontracting service to the Remaining Group, after setting-off will be waived upon Completion.

(ix) The Remaining Group incurred value-added tax of HK$4,248,000 and directly related surcharges and expenses of HK$469,000 related to the Intra-group Transfer as mentioned in note 2(b)(i). This value-added tax is recoverable and can be carried forward to set off subsequent value-added tax expenses. The Purchaser has undertaken to the Vendor under the Agreement that if the total amount of tax in the PRC arising out of the Disposal (including tax expenses incurred in connection with the transfer of assets to the Target Company at the request of the Purchaser) payable by the Vendor exceeds 10% of the Consideration, such excess amount shall be borne by the Purchaser. The payment for the value-added tax and the directly related surcharges and expenses were therefore borne by the Purchaser.

(x) The Group reversed deferred income tax assets of HK$329,000 as a result of realisation of unrealised gains from the transfers of assets within the Group on 30 April 2019.

The differences in values between the net assets of the Target Company on the Completion Date and 30 April 2019 and the adoption of HKFRS 16 will result in a different amount of gain from the Disposal as presented in the unaudited pro forma financial information.

d. Save as set out in the notes above, no other adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 April 2019 for the purpose of preparation of the unaudited pro forma consolidated statement of financial position of the Remaining Group.

3. The following pro forma adjustments have been made to the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows assuming the Disposal had taken place on 1 May 2018:

a. The adjustment represents the exclusion of the results and cash flows of the Target Company for the year ended 30 April 2019. The results and cash flows of the Target Company are extracted from the unaudited condensed statement of comprehensive income and unaudited condensed statement of cash flows of the Target Company for the year ended 30 April 2019 as set forth in Appendix II to this Circular.

b. The adjustment represents the inclusion of consolidated results and consolidated cash flows attributable to the assets (i.e. moulds and machinery) and business held by the Remaining Group after the Intra-group Transfer and Realignment, assuming the Disposal had taken place on 1 May 2018. Revenue is adjusted based on the sales transactions and the corresponding cash flows specifically identified as relating to the assets retained by the Remaining Group after Intra-group Transfer and Realignment which contributed 94.3% of the Group's revenue for the year ended 30 April 2019. The amounts of costs of sales and corresponding cash flows are adjusted based on the proportion of revenue directly attributable by the assets held by the Remaining Group after the Intra-group Transfer and Realignment. The Group expects to incur similar amount of operating expenses and corresponding cash flows as the Directors expect to continue through the New Company without any disruption.

c. The adjustment represents the exclusion of depreciation expenses of property, plant and machinery and prepaid operating lease held by the Target Company in the cost of sales and the corresponding income tax benefit for the year ended 30 April 2019.

d. The adjustment represents the inclusion of rental expenses for leasing the factory and building under the Leaseback Arrangement in the cost of sales and the corresponding cash flows for the year ended 30 April 2019.

e. The adjustment represents the estimated gain on disposal assuming the Disposal had completed on 1 May 2018 and is calculated as follows:

	Notes	*HK$'000*
Total consideration		370,441
Less:		
Carrying amount of net assets of the Target Company attributable to the owners of the Company assuming the Intra-group Transfer and Realignment had been completed on 1 May 2018, excluding tax impact	(i)	(33,276)
Estimated severance payment expenses for terminating all labour relationship between the Target Company and its employees	2(c)(iv)	(29,364)
Estimated transaction costs related to the Disposal	2(c)(v)	(23,529)
Estimated stamp duty in relation to the Disposal	2(c)(vi)	(182)
Estimated PRC enterprise income tax charged on the gain on the Disposal calculated at the applicable tax rate	2(c)(vii)	(31,011)
Value-added tax and surcharges incurred on the Intra-group Transfer and the Realignment	2(c)(ix)	(4,717)
Estimated Hong Kong profits tax in relation to the Disposal calculated at the applicable tax rate	2(c)(vii)	(6,994)
Reversal of deferred income tax assets as a result of realisation of mark-up on assets transferred to the Target Company	(ii)	(643)
Realisation of exchange reserves upon disposal of Target Company		706
Waiver for contract assets and net balances due from the Target Company to the Remaining Group	2(c)(viii)	(38,120)
		203,311

Note

(i) The carrying amount of net assets of the Target Company represents the historical carrying amounts on consolidation level as at 1 May 2018 assuming the Intra-group transfer and Realignment had completed which is calculated as follows:

	Notes	*HK$'000*
Net assets value of the Target Company as at 1 May 2018 as set out in Appendix II to this Circular		71,576
Addition of property, plant and equipment resulted from the Asset Transfers, net	2(b)	65,536
Increase of amount due to the Remaining Group resulted from the Asset Transfers	2(b)	(65,536)
Reversal of unrealised gains from intra-group transactions in the prior periods	2(b)(iv)	(38,300)
		33,276

(ii) The Group reversed deferred income tax assets of HK$643,000 as a result of realisation of unrealised gain from the transfer of assets within the Group on 1 May 2018.

f. The adjustment represents the recognition of imputed interest income from the deferred consideration receivable from the Purchaser.

g. Save as set out in the notes above, no other adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 1 May 2018 for the purpose of preparation of the unaudited pro forma consolidated statement of comprehensive income of the Remaining Group and the unaudited pro forma consolidated statement of cash flows of the Remaining Group.

4. Save as disclosed in the Letter from the Board as set forth in this Circular and the Company's announcement dated 5 August 2019, the Target Company used to produce all the toys sold by the Group which formed an integral part of the Group's business. Subsequent to the year ended 30 April 2019, the Group underwent the Intra-group Transfer and the Realignment. Certain desired products, related moulds and relevant machineries were assigned to the New Company. The remaining lease related assets, factory and buildings, some moulds and machineries of the Group were retained by the Target Company. These related property, plant and equipment retained by the Target Company represents a lowly-utilised and obsolete product line which contributed only approximately 5.7% of the Remaining Group's revenue for the year ended 30 April 2019. There exists a vast difference between the business operations and assets of the Target Company as at the Completion Date and the historical financial information of the Target Company for the years ended 30 April 2017, 2018 and 2019 as set forth in Appendix II to this Circular. The historical performance of the Target Company as set forth in Appendix II to this Circular did not represent the performance of the disposed assets and business retained by the Target Company as at the Completion Date.

5. For the purpose of the unaudited pro forma financial information of the Remaining Group, Renminbi has been converted into HK$ at the rate of RMB0.88 to HK$1.00. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

6. Since the net assets value of the Target Company at the Completion Date may be different from the amounts in the Unaudited Pro Forma Financial Information of the Remaining Group, the final amounts of value of net assets of the Target Company and the estimated gain on the Disposal may be different from the amounts presented above.

B. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Remaining Group as set out on pages III-1 to pages III-11, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Kiddieland International Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Kiddieland International Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") excluding 東莞童園實業有限公司(Dongguan Kiddieland Industrial Co., Ltd.) (the "**Target Company**", and the Group excluding the Target Company is referred to as the "**Remaining Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 April 2019, the unaudited pro forma consolidated statement of comprehensive income for the year ended 30 April 2019, the unaudited pro forma statement of cash flows for the year ended 30 April 2019, and the related notes (collectively, the "**Unaudited Pro Forma Financial Information**") as set out on pages III-1 to III-11 of the Company's circular dated 23 October 2019 in connection with the proposed disposal of 100% equity interest in the Target Company by Kiddieland Industrial Limited, a wholly-owned subsidiary of the Company (the "**Transaction**"). The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages III-1 to III-11.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Transaction on the Group's financial position as at 30 April 2019 and the Group's financial performance and cash flows for the year ended 30 April 2019 as if the Transaction had taken place at 30 April 2019 and 1 May 2018 respectively. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the Directors from the Group's financial statements for the year ended 30 April 2019, on which an audit report has been published.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transaction at 1 May 2018 or 30 April 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 23 October 2019

The following is the valuation report prepared for the purpose of incorporation in this circular received from LCH (Asia-Pacific) Surveyors Limited, an independent professional surveyor and valuation consultant, in connection with its valuation as at 31 August 2019 of the property interests held by the Target Company.

利駿行測量師有限公司
LCH (Asia-Pacific) Surveyors Limited
PROFESSIONAL SURVEYOR
PLANT AND MACHINERY VALUER
BUSINESS & FINANCIAL SERVICES VALUER

The readers are reminded that the report which follows has been prepared in accordance with the reporting guidelines set by the International Valuation Standards 2017 ("IVS") and published by the International Valuation Standards Council which followed by the HKIS Valuation Standards 2017 Edition (the "HKIS Standards") and published by The Hong Kong Institute of Surveyors (the "HKIS"). The standards entitle the valuer to make assumptions which may on further investigation, for instance by the readers' legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer. Translations of terms in English or in Chinese are for reader's identification purpose only and have no legal status or implication in this report. This report was prepared and signed off in English format, translation of this report in language other than English shall only be used as a reference and should not be regarded as a substitute for this report. Piecemeal reference to this report is considered to be inappropriate and no responsibility is assumed from our part for such piecemeal reference. It is emphasised that the findings and conclusion presented below are based on the documents and facts known to us at the Latest Practicable Date of the Circular (as defined below). If additional documents and facts are made available, we reserve the right to amend this report and its conclusions.

17th Floor
Champion Building
287–291 Des Voeux Road Central
Hong Kong

23 October 2019

The Board of Directors
Kiddieland International Limited
14th Floor
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

Dear Sirs,

In accordance with the instructions given by the present management of Kiddieland International Limited (hereinafter referred to as the "Instructing Party") to us to conduct valuation of a designated *real property* (same as the word *property* in this report) in which 東莞童園實業有限公司 Dongguan Kiddieland Industrial Co., Ltd. (hereinafter referred to as the "Target Company") has property interests in the People's Republic of China (hereinafter referred to as the "PRC" or "China") and, to report the existing status of material property interests rented by the Target Company in the PRC, we confirm that we have conducted inspections, made relevant enquiries and obtained such further information as we consider necessary to support our opinion of value of the property in Group I of the Target Company as at 31 August 2019 (hereinafter referred to as the "Valuation Date") for the Instructing Party's internal management reference purpose.

We understand that the use of our work product (regardless of form of presentation) will form part of the Instructing Party's due diligence but we have not been engaged to make specific sales or purchase recommendations, or to give opinion for any financing arrangement. We further understand that the use of our work product will not supplant other due diligence which the Instructing Party should conduct in reaching its business decision regarding the property valued. Our work is designed solely to provide information that will give the Instructing Party a reference in its due diligence process, and our work should not be the only factor to be referenced by the Instructing Party.

At the request of the Instructing Party, we prepared this valuation report (including text section, summary of values and the property particulars with value sections) for the purpose of inclusion in a circular of Kiddieland International Limited (hereinafter referred to as the "Company" and together with its subsidiaries collectively referred to as the "Group") dated 23 October 2019 (the "Circular") for the Company's shareholders' reference.

VALUATION OF PROPERTY IN GROUP I

Basis of Value

According to the IVS which the HKIS Standards also follows, there are two valuation bases, namely market value basis and valuation bases other than market value. In this engagement, we were instructed to provide our opinion of value of the property on the market value basis.

The term "Market Value" is defined by the IVS and the HKIS Standards as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

However, the property did not possess the relevant State-owned Land Use Rights Certificate or Real Estate Ownership Certificate as at the Valuation Date, we have assigned no commercial value to the property.

Unless otherwise stated, we have not carried out a valuation on a redevelopment basis and the study of possible alternative development options and the related economics do not come within the scope of our work.

REPORTING OF LEASEHOLD PROPERTY INTERESTS IN GROUP II

Property in Group II is subject to leasehold arrangements, and we have assigned no commercial value to the property interests due mainly to its leasehold nature or prohibition against assignment or sub-letting or lack of substantial rents.

MATTERS THAT MIGHT AFFECT THE VALUE REPORTED

For the sake of valuation, we have adopted the areas as appeared in the copies of the documents as provided, and no further verification work has been conducted. Should it be established subsequently that the adopted areas were not the latest approved, we reserve the right to revise our report and the valuation accordingly.

As at the Latest Practicable Date of the Circular, we are unable to identify any adverse news against the property which may affect the reported findings or value in our work product. Thus, we are not in the position to report and comment on its impact (if any) to the properties. However, should it be established subsequently that such news did exist at the Valuation Date, we reserve the right to adjust the findings or value reported herein.

ESTABLISHMENT OF TITLES

Due to the purpose of this engagement and the market value basis of valuation, the Instructing Party or the appointed personnel of the Company provided us with the necessary documents to support that the legally interested party in each of the properties has free and uninterrupted rights to occupy, to assign, to mortgage or to let the property at its existing use (in this instance, an absolute title), for the whole of the unexpired terms as granted, free of all encumbrances and any premiums payable have already been paid in full or outstanding procedures have been completed, and that the Target Company has the right to occupy and to use the properties. Our procedures to value, as agreed with the Instructing Party, did not require us to conduct legal due diligence on the legality and formality on the way that the legally interested party obtained the properties from the relevant authorities. We agreed with the Instructing Party that this should be the responsibility of the legal advisor to the Instructing Party. Thus, no responsibility or liability is assumed from our part to the origin and continuity of the titles to the properties.

We have been provided with copies of the documents of the properties. We have not examined the original documents to verify the ownership and encumbrances or to ascertain the existence of any amendments, which may not appear on the copies handed to us. All documents disclosed (if any) are for reference only and no responsibility is assumed for any legal matters concerning the legal title and the rights (if any) to the properties. Any responsibility for our misinterpretation of the documents cannot be accepted.

The land registration system of China forbids us to search the original documents of the properties that are filed in the relevant authorities, and to verify legal titles or to verify any material encumbrances or amendment which may not appear on the copies handed to us. We need to state that we are not legal professionals and are not qualified to ascertain the titles and to report any encumbrances that may be registered against the properties. However, we have complied with the requirements as stated in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and relied solely on the copies of document and the copy of the PRC legal opinion provided by the Instructing Party with regard to the legal title of the properties. We are given to understand that the PRC legal opinion was prepared by the Company's PRC legal adviser, Dentons ("大成律師事務所"), in October 2019. No responsibility or liability from our part is assumed in relation to that legal opinion.

In our report, we have assumed that the legally interested party in each of the properties has obtained all the approval and/or endorsement from the relevant authorities, and that there would have no legal impediment (especially from the regulators) for the legally interested party to continue its titles in the property. Should this not be the case, it will affect our opinion in this report significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability from our part is assumed.

INSPECTIONS AND INVESTIGATIONS OF THE PROPERTIES

The properties were inspected by Ms. Krystal Tian, our graduate surveyor, in September 2019. We have inspected the exterior, and where possible, the interior of the properties in respect of which we have been provided with such information as we have requested for the purpose of our valuation. We have not inspected those parts of the properties which were covered, unexposed or inaccessible and such parts have been assumed to be in reasonable condition. We cannot express an opinion about or advise upon the condition of uninspected parts and this report should not be taken as making any implied representation or statement about such parts. No building survey, structural survey, investigation or examination has been made, but in the course of our inspections we did not note any serious defects in the properties. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out to the services (if any) and we are unable to identify those services either covered, unexposed or inaccessible.

We have not carried out on-site measurements to verify the correctness of the floor areas of the properties, but have assumed that the floor areas shown on the documents and handed to us are correct. All dimensions, measurements and areas are approximations.

Our engagement and the agreed procedures to value or to report the properties did not include an independent land survey to verify the legal boundaries of the properties. We need to state that we are not in the land survey profession, therefore, we are not in the position to verify or ascertain the correctness of the legal boundaries of the properties that appeared on the documents handed to us. No responsibility from our part is assumed. The Instructing Party or interested party in the properties should conduct their own legal boundaries due diligence work.

We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous materials have been used in the construction of the properties, or have since been incorporated into the properties, and we are therefore unable to report that the properties are free from risk in this respect. For the purpose of this valuation, we have assumed that such investigation would not disclose the presence of any such materials to any significant extent.

We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the properties and which may draw attention to any contamination or the possibility of any such contamination. In undertaking our work, we have assumed that no contaminative or potentially contaminative uses have ever been carried out in the properties. We have not carried out any investigation into past or present uses, either of the properties or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the properties from these uses or sites, and have therefore assumed that none exists. However, should it be established subsequently that contamination, seepage or pollution exists at the properties or on any neighbouring land, or that the premises have been or are being put to a contaminative use, this might reduce the value now reported, if any.

SOURCES OF INFORMATION AND ITS VERIFICATION

In the course of our works, we have been provided with copies of the documents regarding the properties, and these copies have been referenced without further verifying with the relevant bodies and/or authorities. Our procedures to value did not require us to conduct any searches or inspect the original documents to verify ownership or to verify any amendment which may not appear on the copies handed to us. We need to state we are not legal professionals, therefore, we are not in the position to advise and comment on the legality and effectiveness of the documents provided by the appointed personnel of the Instructing Party or the Target Company.

We have relied solely on the full property list and information provided by the appointed personnel of the Instructing Party or the Target Company without further verification and we have fully accepted advice given to us on such matters as planning approvals or statutory notices, locations, titles, easements, tenure, letting, occupation, site and floor areas and all other relevant matters. The Instructing Party confirmed to us that the Target Company has no other property interest in addition to the properties disclosed in our report.

Information furnished by others, upon which all or portions of our work product are based, is believed to be reliable but has not been verified in all cases. Our procedures to value or work do not constitute an audit, review, or compilation of the information provided. Thus, no warranty is made nor liability assumed for the accuracy of any data, advice, opinions, or estimates identified as being furnished by others which have been used in formulating our work product.

When we adopted the work products from other professions, external data providers and the appointed personnel of the Instructing Party or the Target Company in our valuation, the assumptions and caveats that adopted by them in arriving at their figures also applied in our valuation. The procedures we have taken do not provide all the evidence that would be required in an audit and, as we have not performed an audit, accordingly, we do not express an audit opinion.

We are unable to accept any responsibility for the information that has not been supplied to us by the appointed personnel of the Instructing Party or the Target Company. Also, we have sought and received confirmation from the appointed personnel of the Instructing Party or the Target Company that no materials factors have been omitted from the information supplied. Our analysis and valuation are based upon full disclosure between us and the appointed personnel of the Instructing Party or the Target Company of material and latent facts that may affect the valuation.

We have had no reason to doubt the truth and accuracy of the information provided to us by the appointed personnel of the Instructing Party or the Target Company. We consider that we have been provided with sufficient information to reach an informed view, and have had no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts are in Renminbi Yuan ("RMB").

LIMITING CONDITIONS

Our opinion of value of the property in this valuation report is valid only for the stated purpose and only for the Valuation Date, and for the sole use of the Instructing Party. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this valuation report, and we accept no responsibility whatsoever to any other person.

Our valuation of property in Group I has been made on the assumption that no unauthorised alteration, extension or addition has been made in the property, and that the inspection and the use of this report do not purport to be a building survey of the property. We have assumed that the properties are free of rot and inherent danger or unsuitable materials and techniques.

No responsibility is taken for changes in market conditions and local government policy and no obligation is assumed to revise this valuation report to reflect events or conditions, which occur or make known to us subsequent to the date hereof.

Neither the whole nor any part of this valuation report or any reference made hereto may be included in any published documents, circular or statement, or published in any way, without our written approval of the form and context in which it may appear. Nonetheless, we consent to the publication of this report in the Circular for the Company's shareholders' reference.

Our liability for loss or damage shall be limited to such sum as we ought reasonably to pay having regard to our responsibility for the same on the basis that all other consultants and specialists, where appointed, shall be deemed to have provided to the Instructing Party contractual undertakings in respect of their services and shall be deemed to have paid to the Instructing Party such contribution as may be appropriate having regard to the extent of their responsibility for such loss or damage.

Our liability for any loss or damage arising out of the action or proceedings aforesaid shall, notwithstanding the preceding provisions, in any event be limited to a sum not exceeding the charges paid to us for the portion of services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, loss of profits, opportunity cost, etc.), even if it has been advised of their possible existence. For the avoidance of doubt our liability shall never exceed the lower of the sum calculated in accordance with the preceding provisions and the sum provided for in this clause.

The Instructing Party and the Company are required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our engagement except to the extent that any such losses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence, misconduct, willful default or fraud of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

STATEMENTS

This valuation report is prepared in line with the requirements contained in Chapter 5 and Practice Note 12 of the Listing Rules as well as the reporting guidelines contained in the IVS and HKIS Standards. The valuation has been undertaken by us, acting as external valuer, qualified for the purpose of the valuation.

We retain a copy of this report together with the data provided by the Instructing Party for the purpose of this assignment, and these data and documents will, according to the Laws of Hong Kong, be kept for a period of 6 years from the date it provided to us and to be destroyed thereafter. We considered these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the Instructing Party's authorisation and prior arrangement made with us. Moreover, we will add the Company's information into our client list for our future reference.

The analysis and valuation of the properties depend solely on the assumptions made in this report and not all of which can be easily quantified or ascertained exactly. Should some or all of the assumptions prove to be inaccurate at a later date, it will affect the reported findings or conclusion of value significantly.

We hereby certify that the fee for this service is not contingent upon our conclusion of value and we have no significant interest in the properties, the Group or the Target Company or the value reported.

Yours faithfully,
For and on behalf of
LCH (Asia-Pacific) Surveyors Limited

Elsa Ng Hung Mui *B.Sc. M.Sc. RPS (GP)*
Executive Director

Contributing Valuer:
Krystal Tian Qi *B.Sc. M.Sc.*

Sr Elsa Ng Hung Mui has been conducting valuation of real properties in Hong Kong, Macau and mainland China since 1994. She is a Fellow Member of The HKIS and a valuer on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuation in Connection with Takeovers and Mergers published by The HKIS.

SUMMARY OF VALUES

Group I — Property held and occupied by the Target Company in the PRC and valued on market value basis

Property	Amount of valuation in its existing state as at 31 August 2019	Interest of the Target Company	Amount of valuation in its existing state attributable to the Target Company as at 31 August 2019
1. A factory complex located at Gao Li Industrial Area Tang Xia Dong Guan City Guangdong Province The People's Republic of China 523728	Nil	100 per cent.	Nil
		Total	No Commercial Value

Group II — Property held by the Target Company under leasehold arrangement in the PRC

Property	Amount of valuation in its existing state attributable to the Target Company as at 31 August 2019
2. Various buildings erected on the land adjacent to Property No. 1 above and located at Gao Li Industrial Area Tang Xia Dong Guan City Guangdong Province The People's Republic of China 523728	Nil
Total	No Commercial Value

PROPERTY PARTICULARS WITH VALUE

Group I — Property held and occupied by the Target Company in the PRC and valued on market value basis

Property	Description and tenure	Particulars of occupancy	Amount of valuations in existing state attributable to the Target Company as at 31 August 2019
1. A factory complex adjacent to Property No. 2 in Group II below and located at Gao Li Industrial Area Tang Xia Dong Guan City Guangdong Province The People's Republic of China 523728	The property comprises a parcel of land having a site area of approximately 37,616 sq. m. with 5 major buildings and structures erected thereon. *(see Notes 1 to 4)* The major buildings are of single to 3-storey in height and were completed between 1998 and 2001. They have a total gross floor area of approximately 37,204.25 sq. m. *(see Notes 6 and 7)* The property is located in an urban area and surrounded by mixed developments.	As inspected and confirmed by the Instructing Party and the appointed personnel of the Company, the property was occupied by the Group for production, warehouse, office and storage purposes as at the Valuation Date.	No Commercial Value *(see Note 10 below)*

Notes:

1. Pursuant to a Contract for the Compensated Use of Land dated 1 December 1997 and made between Dongguan City Tangxia Town Economic Development Company (hereinafter referred to as "Economic Development Company") and Kiddieland Industrial Limited (hereinafter referred to as "Kiddieland Industrial"), and a supplemental agreement dated 29 September 2013 and made between Economic Development Company, Kiddieland Industrial and 東莞塘廈童園玩具廠 (translated as Dongguan Tangxia Kiddieland Toy Factory and hereinafter referred to as "DG Kiddieland Factory"), DG Kiddieland Factory shall have the land use rights of a land parcel having a site area of approximately 90,000 sq. m., in which the land of the property forms part, for a term of 50 years from 1 December 1997 to 30 November 2047. According to the legal opinion prepared by the Company's PRC legal adviser, the above agreements were invalid. We are given to understand that the land was resumed by the respective interested parties of the land, namely, The Fifth Joint-equity Economic Cooperative of Dongguan City Tangxia Town Pingshan Region (hereinafter referred to as "Pingshan Economic Cooperative") and Dongguan City Tangxia Town Qinghutou Joint-equity Economic Union (hereinafter referred to as "Qinghutou Economic Union") in September 2016. Details of the historical background of the land issue are set out in the section titled "Our Properties" under the section headed "Business" of the Company's prospectus dated 11 September 2017.

2. Pursuant to a Decision on Administrative Penalty issued by Dongguan City State-owned Land Resources Bureau on 5 September 2016, the Target Company occupied a parcel of land with a site area of 91,879 sq.m. for the construction of its production plants and ancillary facilities during December 1997 to November 2007. However the procedures to obtain the rights to use the relevant land have not been complied with, and DG Kiddieland Industrial was ordered to return the land to the owners of the land within 15 days from the date of the letter. As advised, the 91,879 sq.m. land covers this property and the Property No. 2 in Group II mentioned below.

3. Pursuant to an agreement dated 27 December 2016 and entered into between the Target Company and Pingshan Economic Cooperative, both parties agreed that having considered the Target Company has made supplemental application to obtain the State-owned Land Use Rights certificate of a land parcel with a site area of 23,503.3 sq. m., Pingshan Economic Cooperative confirmed the buildings erected on such portion of land shall belong to the Target Company.

4. Pursuant to an agreement dated 13 January 2017 and entered into between the Target Company and Qinghutou Economic Union, both parties agreed that having considered the Target Company has made supplemental application to obtain the State-owned Land Use Rights certificate of a land parcel with site area of 14,112.7 sq. m., Qinghutou Economic Union confirmed the buildings erected on such portion of land shall belong to the Target Company.

5. As advised, the subject buildings and structures are situated on the land mentioned on Notes 3 and 4 above.

6. According to our on-site inspection and information provided by the appointed personnel of the Company, there are 5 various major buildings and structures having a total gross floor area of approximately 37,204.25 sq. m. erecting on the land of the property. The area breakdowns of the buildings and structures are listed as follows:

		Year of Completion	Gross Floor Area *(sq.m.)*
(i)	Two 2-storey and a 3-storey Workshops (Factory Block Nos. A, B and C)	1998	27,000.00
(ii)	A 2-storey Workshop (Factory Block No. D)	2001	10,000.00
(iii)	A single storey electricity room	1998	204.25
		Total:	**37,204.25**

7. According to the information provided, the buildings and structures mentioned above possess the following permit/certificate:

Building/Structure		**Planning Permit for Construction Project 建設工程規劃許可證**	**Construction Permit for Construction Project 建設工程施工許可證**	**Completion and Acceptance Permit for Construction Project 建築工程竣工驗收證**
(i)	Factory Block Nos. A, B and C	Yes	Yes	Yes
(ii)	Factory Block No. D	No	No	No
(iii)	Electricity Room	Yes	Yes	Yes

8. Pursuant to a copy of the Business Licence (營業執照) dated 20 January 2014, the Target Company is a limited liability company registered in the PRC for an operational period commencing from 20 January 2014 to 20 January 2064.

9. According to the legal opinion as prepared by the Company's PRC legal adviser, the following opinions are noted:

   (i) According to the Land Administration Law of the PRC (中華人民共和國土地管理法) the land use agreement and its supplemental agreement mentioned in Note 1 above were invalid; and

   (ii) the Target Company had previously been preparing to apply for the relevant land use rights certificate and real estate ownership certificate of the property (mentioned in Notes 3 and 4 above) but subsequently did not further pursue such application.

10. As the Target Company did not obtain the relevant title certificate to the property as at the Valuation Date, no commercial value was assigned to the property. For information purpose, if the relevant title certificate was obtained and the property could be freely transferred as at the Valuation Date, the amount of valuation of the property would be in the region of RMB72,450,000.

Group II — Property held by the Target Company under leasehold arrangement in the PRC

Property	Description and occupancy	Amount of valuations in existing state attributable to the Target Company as at 31 August 2019
2. Various buildings erected on the land adjacent to Property No. 1 in Group I above and located at Gao Li Industrial Area Tang Xia Dong Guan City Guangdong Province The People's Republic of China 523728	The property comprises 10 various buildings and completed in between 1998 to 2010 and erected on a site having an area of about 54,263 sq.m. *(See Notes 1 and 2 below)* According to the information made available to us, the property has a gross floor area of approximately 38,972 sq. m. for workshops, warehouse, dormitory and other supporting facilities. *(See Note 3)* The property is granted to the Target Company for usage at nil rental under 2 various agreements. *(See Notes 1 and 2)* The property was occupied by the Group for production, storage, staff quarters and other supporting purposes as at the Valuation Date. The property is located in an urban area and surrounded by mixed developments.	No Commercial Value

Notes:

1. Pursuant to an agreement dated 27 December 2016 and entered into between Pingshan Economic Cooperative and the Target Company, the legally interested party of 41,514.1 sq.m. ("Remaining Land 1") the remaining land adjacent to Property No. 1 above, and the buildings erected thereon is Pingshan Economic Cooperative, and that Pingshan Economic Cooperative agreed to grant the rights to use the buildings erected on the Remaining Land 1 to the Target Company at nil compensation for a term till 30 November 2047.

2. Pursuant to an agreement dated 13 January 2017 and entered into between the Target Company and Qinghutou Economic Union, the legally interested party of 12,748.7 sq.m. ("Remaining Land 2") the remaining land adjacent to Property No. 1 above, and the buildings erected thereon is Qinghutou Economic Union, and that Qinghutou Economic Union agreed to lease the buildings erected on the Remaining Land 2 to the Target Company at nil rental for a term of 20 years and thereafter shall be automatically renewed to 30 November 2047.

3. According to the information provided, the property includes the following buildings/structures:

	Building/Structure	**Approximately Gross Floor Area** *(sq. m.)*
(i)	Factory Block No. E (Workshops and warehouse)	13,763
(ii)	Factory Block No. F (Warehouse)	11,630
(iii)	Staff dormitory Blocks A to E	11,622
(iv)	Canteen	1,404
(v)	Garbage room	315
(vi)	Garage	238
	Total:	38,972

4. According to the legal opinion as prepared by the Company's PRC legal adviser, the agreements mentioned in Notes 1 and 2 above are considered as rental agreement at nil rental. The agreements are legal and valid, save and except the following:

   (a) as the garbage room and garage erected on the property have not undergone completion inspection as well as fire safety inspection the portion of the agreement mentioned in Note 2 relating to the garbage room and garage may be determined to be invalid by the court in case of dispute; and

   (b) the portion of the term of the agreements mentioned in Notes 1 and 2 above exceeding 20 years may be determined to be invalid by the court in case of dispute as the Contract Law of the PRC provides that the term of tenancy should not exceed 20 years.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests and short positions of Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and any associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executives of the Company were taken or deemed to have pursuant to Divisions 7 and 8 of Part XV of the SFO), or (ii) entered in the register required to be kept under Section 352 of the SFO or (iii) required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") adopted by the Company were as follows:

Long positions in the shares of associated corporation — KLH Capital

Name of Director	Capacity	Nature of interest	Number of shares held	Approximate percentage of Shareholding in KLH Capital
Mr. Lo Shiu Kee Kenneth	Beneficial owner	Personal	2,500	25%
Ms. Lo Shiu Shan Suzanne	Beneficial owner	Personal	2,500	25%
Ms. Sin Lo Siu Wai Sylvia	Beneficial owner	Personal	2,500	25%
Mr. Lo Hung	Beneficial owner	Personal and family *(note)*	2,500	25%
Ms. Leung Siu Lin Esther	Beneficial owner	Personal and family *(note)*	2,500	25%

Note: Each of Mr. Lo Hung and Ms. Leung Siu Lin Esther holds 1,250 ordinary shares in KLH Capital representing 12.5% of the issued share capital of KLH Capital. As each of them is the spouse of the other of them, each of them is deemed under the SFO to be interested in such 1,250 shares in KLH Capital held by the other of them.

Save as disclosed above, none of the Directors and chief executives of the Company had, as at the Latest Practicable Date, any interests or short positions in any shares and underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executives of the Company were taken or deemed to have pursuant to Divisions 7 and 8 of Part XV of the SFO), or which were entered in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Interests and short positions of the substantial Shareholders in the Shares and underlying Shares

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the interests and short positions of the Shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were entered in the register required to be kept by the Company pursuant to Section 336 of the SFO, were as follows:

Long positions in the Shares

Name of Shareholder	Capacity of Shareholder	Number of Shares	Approximate percentage of total issued Shares
KLH Capital	Beneficial owner	750,000,000 *(note)*	75%

Note: Mr. Lo Shiu Kee Kenneth, Ms. Lo Shiu Shan Suzanne, Ms. Sin Lo Siu Wai Sylvia, Mr. Lo Hung and Ms. Leung Siu Lin Esther, all being executive Directors, hold 25%, 25%, 25%, 12.5% and 12.5% respectively of the issued shares in KLH Capital.

Saved as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any person (other than Directors and chief executives of the Company) who had interests or short positions in the Shares and underlying Shares under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were entered in the register required to be kept under Section 336 of the SFO.

As at the Latest Practicable Date, Mr. Lo Shiu Kee Kenneth, Ms. Lo Shiu Shan Suzanne, Ms. Sin Lo Siu Wai Sylvia, Mr. Lo Hung and Ms. Leung Siu Lin Esther were directors of KLH Capital. Save as disclosed above, as at the Latest Practicable Date, no Director or proposed Director is a director or employee of a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' INTERESTS IN COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors or his or her respective close associates was considered to have an interest in a business which competes or was likely to compete, either directly or indirectly, with the business of the Group other than those business to which the Directors or his or her close associates were appointed to represent the interests of the Company and/or the Group.

4. DIRECTORS' INTEREST IN CONTRACTS AND ASSETS OF THE GROUP

As at the Latest Practicable Date,

(a) none of the Directors was materially interested in any contract or arrangement subsisting and which was significant in relation to the business of the Group; and

(b) none of the Directors had any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group since 30 April 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up.

5. MATERIAL CONTRACTS

The following are contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Group) entered into by the members of the Group within the two years immediately preceding the date of this circular and which are or may be material:

(a) a deed of non-competition dated 31 August 2017 executed by the Controlling Shareholders in favour of the Company, particulars of which are set out in the section headed "Relationship with our Controlling Shareholders — Non-competition undertaking" in the Prospectus;

(b) a deed of indemnity dated 31 August 2017 entered into between the Controlling Shareholders and the Company for itself and as trustee for its subsidiaries pursuant to which the Controlling Shareholders have given certain indemnities in favour of the Group containing the indemnities referred to in the paragraph headed "Other information — Estate duty, tax and other indemnities" in Appendix V to the Prospectus;

(c) the underwriting agreement dated 8 September 2017 entered into between the Company, the Controlling Shareholders, the executive Directors, WAG Worldsec Corporate Finance Limited and Huajin Securities (International) Limited, particulars of which are set out in the section headed "Underwriting" in the Prospectus; and

(d) the Agreement.

6. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

7. DIRECTORS' SERVICE AGREEMENTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

8. EXPERTS

The following are the qualifications of the experts who have given opinion or advice which are contained in this circular:

Name	Qualification
PricewaterhouseCoopers	Certified Public Accountants
LCH (Asia-Pacific) Surveyors Limited	Professional surveyor

As at the Latest Practicable Date, none of the experts above had any shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of the experts above had any interest, direct or indirect, in any asset which since 30 April 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up, have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

9. EXPERTS' CONSENT

Each of the experts named in the section headed "8. EXPERTS" above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report and/or letter as set out in this circular and/or references to its name and/or opinion in the form and context in which they appear in this circular.

10. GENERAL

(a) The registered office of the Company is at PO Box 1350, Clifton House 75 Fort Street, Grand Cayman KY1-1108 Cayman Islands and its headquarter and principal place of business in Hong Kong is at 14/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.

(b) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(c) The company secretary of the Company is Mr. Cheung Ka Cheong, who is a member of the Hong Kong Institute of Certified Public Accountants.

(d) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9:00 a.m. to 6:00 p.m. (except Saturdays, Sundays and public holidays) at the principal place of business of the Company in Hong Kong at 14/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong from the date of this circular up to and including 8 November 2019:

(a) the Agreement;

(b) the memorandum of association and the articles of association of the Company;

(c) the Prospectus;

(d) the annual reports of the Company for the two financial years ended 30 April 2018 and 2019 respectively;

(e) the report on review of the unaudited historical financial information of the Target Company from PricewaterhouseCoopers as set out in Appendix II to this circular;

(f) the report on the unaudited pro forma financial information of the Remaining Group from PricewaterhouseCoopers as set out in Appendix III to this circular;

(g) the letter, summary of values and valuation certificate relating to property interest of the Target Company prepared by LCH (Asia-Pacific) Surveyors Limited, the text of which as set out in Appendix IV to this circular;

(h) the written consents referred to in the paragraph headed "Experts' consent" in this appendix;

(i) each of the material contracts referred to in the section headed "Material contracts" in this appendix; and

(j) this circular.

Kiddieland International Limited
童 園 國 際 有 限 公 司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 3830)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Kiddieland International Limited (the "**Company**") will be held at Room 1405, 14/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong on Friday, 8 November 2019 at 10:00 a.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**

(a) the Disposal (as defined in the circular of the Company dated 23 October 2019, a copy of which is produced to the meeting marked "**A**" and initialed by the chairman of the meeting for identification purpose), the sale and purchase agreement dated 5 August 2019 (the "**Agreement**", a copy of which is produced to the meeting marked "**B**" and initialed by the chairman of the meeting for identification purpose) entered into between Kiddieland Industrial Limited (the "**Vendor**") as vendor and 東莞市盛托投資股份有限公司 (Dongguan Shengtuo Investment Co., Ltd.) (the "**Purchaser**") as purchaser pursuant to which the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to purchase, 100% equity interest in東莞童園實業有限公司 (Dongguan Kiddieland Industrial Co., Ltd.) and all transactions contemplated under the Agreement and any other agreements or documents in connection therewith be and are hereby approved, confirmed and ratified, and noted that conditional on completion of the Disposal, the payment of a special cash dividend of approximately HK$150 million to shareholders in the manner and on such date as the directors of the Company considered appropriate will be effected; and

(b) any director of the Company ("**Director**"), or if affixation of the common seal is necessary, any two Directors, be and is/are hereby authorised for and on behalf of the Company to execute all such documents and agreements and do all such acts and things, including but without limitation to the execution of all such documents under common seal where applicable, as he/she may in his/her discretion consider necessary, expedient or desirable for the purpose of or in connection with the implementation of or giving effect to the Agreement or any of the transactions contemplated thereunder and all matters incidental thereto or in connection therewith."

By order of the Board
Kiddieland International Limited
LO Hung
Chairman

Hong Kong, 23 October 2019

Notes:

1. All resolutions at the meeting will be taken by poll pursuant to the Listing Rules and the results of the poll will be published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and that of the Company (www.kiddieland.com.hk).

2. Any shareholder of the Company entitled to attend and vote at the above meeting is entitled to appoint one or, if he holds two or more Shares, more than one proxy to attend and vote instead of him. A proxy need not be a shareholder of the Company.

3. Where there are joint registered holders of any Share, any one of such persons may vote at the above meeting, either personally or by proxy, in respect of such Share as if he were solely entitled thereto; but if more than one of such joint registered holders are present at the above meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Share shall alone be entitled to vote in respect thereof.

4. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority, must be completed and lodged at the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the above meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a shareholder from attending and voting in person at the above meeting or any adjournment thereof, and in such event, the relevant form of proxy shall be deemed revoked.

5. The Chinese version of this notice is for reference only. In case of any inconsistency, the English version shall prevail.

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