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凱知樂

Kidsland International Holdings Limited

凱知樂國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2122)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

HIGHLIGHTS

- The Group recorded a net profit after tax of approximately RMB12.0 million in the Reporting Period, compared to a net loss after tax of approximately RMB135.6 million in the Prior Period.
- During the Reporting Period, the revenue of the Group increased by 17.6% from approximately RMB641.2 million for the Prior Period to approximately RMB754.0 million.
 - Revenue from self-operated retail channels recorded an increase of 19.1% to approximately RMB598.3 million, of which revenue from retail shops rose by 31.1% to approximately RMB351.4 million.
 - Revenue from wholesale channels also increased by 12.1% to approximately RMB155.8 million, of which revenue from distributors rose by 19.9% to approximately RMB131.3 million.
- Gross profit rose by 48.0% from approximately RMB214.4 million in the Prior Period to approximately RMB317.4 million in the Reporting Period. Gross profit margin increased from 33.4% in the Prior Period to 42.1% in the Reporting Period.
- Total selling, distribution, general and administrative expenses decreased by 10.7% from approximately RMB340.9 million for the Prior Period to approximately RMB304.3 million.
- Cash position increased from approximately RMB53.8 million as of 31 December 2020 to approximately RMB99.8 million as of 30 June 2021 and cash conversion cycle reduced from 173 days in the Prior Period to 142 days in the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The outbreak of the novel coronavirus disease 2019 (the “**COVID-19**”) had put severe pressure on the operations and financial results of Kidsland International Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) during 2020. With the efforts the team had taken, the Group had substantially stabilised the business and there were initial signs of recovery since the second half of 2020 and the momentum carried well into 2021. During the six months ended 30 June 2021 (the “**Reporting Period**”), attributed to the increase in revenue by 17.6% and the intensified expense and product procurement management, the Group recorded a net profit after tax of approximately RMB12.0 million, compared to a net loss after tax of approximately RMB135.6 million for the six months ended 30 June 2020 (the “**Prior Period**”).

During the Reporting Period, the Group had been continuously optimising its retail network in Mainland China by, among others, renegotiating rental agreements and exiting loss-making retail locations. Meanwhile, the Group stayed focused on executing its strategic upgrade and turnaround plan as set out in the Group’s 2020 annual report.

In view of the market opportunities arising from trendy toys, domestic culture and the latest education policies, the Group is actively developing its trendy toy business, as well as its own product and brand development. While on course in executing the accelerated growth plan for Hong Kong and Macau business unit, the Group also aims to increase its own product development to generate 15–20% of total revenue of the Group’s Mainland China business unit in mid- to long-term, which will be driven by its own intellectual property (“**IP**”) and collaboration with international IPs.

RETAIL AND WHOLESALE BUSINESS

Our extensive distribution network comprises self-operated retail channels and wholesale channels. As of 30 June 2021, this network comprised:

Self-operated Retail Channels

- 642 self-operated retail points of sale consisting of retail shops and consignment counters (30 June 2020: 717)
- 24 online stores (30 June 2020: 22)

Wholesale Channels

- 578 distributors (30 June 2020: 638) which onsell our products through third party retailers or at their own retail shops, which totaled to more than 2,300 (30 June 2020: more than 2,600)
- 12 hypermarket and supermarket chains (30 June 2020: 16)
- 6 online key accounts (30 June 2020: 5)

Detailed breakdowns of our distribution network are set out below:

1. Self-operated Retail Channels

1.1 Retail Shops

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

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

	Six months ended 30 June	
	2021	2020
Retail shops		
At the beginning of the period	202	239
Addition of new retail shops	11	3
Closure of retail shops	(24)	(24)
At the end of the period	189	218

1.2 Consignment Counters

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

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

	Six months ended 30 June	
	2021	2020
Consignment counters		
At the beginning of the period	468	505
Addition of new consignment counters	6	17
Closure of consignment counters	(21)	(23)
	<hr/>	<hr/>
At the end of the period	453	499
	<hr/> <hr/>	<hr/> <hr/>

1.3 Online Stores

During the Reporting Period, we launched 3 and closed 3 flagship stores of brands that we represented on third-party-operated online platforms such as Tmall and JD.com. As of 30 June 2021, we had 24 online stores in total, compared with 22 as of 30 June 2020.

2. Wholesale Channels

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

2.1 Distributors

As of 30 June 2021, we had 578 distributors (30 June 2020: 638), which onsell our products through third party retailers or at their own retail shops, which totaled to more than 2,300 (30 June 2020: more than 2,600) in Mainland China.

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

	Six months ended 30 June	
	2021	2020
Distributors		
At the beginning of the period	580	697
Addition of new distributors	51	38
Expiry without renewal of distribution agreements	(53)	(97)
	<hr/>	<hr/>
At the end of the period	578	638
	<hr/> <hr/>	<hr/> <hr/>

2.2 *Hypermarket and Supermarket Chains*

As of 30 June 2021, we had wholesale arrangements with 12 hypermarket and supermarket chains (30 June 2020: 16) with a sum of 682 retail points (30 June 2020: 689) in Tier 1, 2 and 3 cities in Mainland China (based on information provided by the hypermarket and supermarket chains).

The following table sets forth the changes in the number of hypermarket and supermarket chains for the periods indicated:

	Six months ended 30 June	
	2021	2020
Hypermarket and supermarket chains		
At the beginning of the period	16	16
Addition of new hypermarket and supermarket chains	1	–
Termination or expiry of agreements with hypermarket and supermarket chains	(5)	–
	<hr/>	<hr/>
At the end of the period	<u>12</u>	<u>16</u>

2.3 *Online Key Accounts*

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

	Six months ended 30 June	
	2021	2020
Online key accounts		
At the beginning of the period	5	5
Addition of new online key accounts	1	–
	<hr/>	<hr/>
At the end of the period	<u>6</u>	<u>5</u>

FINANCIAL REVIEW

Revenue

During the Reporting Period, the revenue of the Group increased by 17.6% from approximately RMB641.2 million for the Prior Period to approximately RMB754.0 million.

Helped by the opening of kkplus kidsland in Hong Kong and LEGO Certified Store in Macau, revenue from Hong Kong and overseas regions (after inter-segment elimination) recorded an increase by 23.2% from approximately RMB66.3 million in the Prior Period to approximately RMB81.7 million in the Reporting Period.

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

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Self-operated retail channels		
– Retail shops	351,365	267,994
– Consignment counters	207,529	185,055
– Online stores	39,373	49,211
Sub-total:	598,267	502,260
Wholesale channels		
– Distributors	131,252	109,449
– Hypermarket and supermarket chains	14,376	9,587
– Online key accounts	10,145	19,893
Sub-total:	155,773	138,929
Total:	754,040	641,189

Self-operated Retail Channels

The self-operated retail channels recorded an increase in revenue of 19.1% to approximately RMB598.3 million during the Reporting Period compared to the Prior Period, resulted from diminishing impact of COVID-19 on sales. Revenue from retail shops and consignment counters rose by 31.1% to approximately RMB351.4 million and 12.1% to approximately RMB207.5 million, respectively, while online stores revenue dropped by 20.0% to approximately RMB39.4 million.

Wholesale Channels

During the Reporting Period, revenue contributed by wholesale channels also increased by 12.1% to approximately RMB155.8 million. Revenue from distributors and hypermarket and supermarket chains rose by 19.9% to approximately RMB131.3 million and 50.0% to approximately RMB14.4 million, respectively, while online key accounts revenue dropped by 49.0% to approximately RMB10.1 million.

Cost of Sales, Gross Profit and Gross Profit Margin

Cost of sales increased by 2.3% from approximately RMB426.8 million in the Prior Period to approximately RMB436.6 million in the Reporting Period. Excluding non-cash inventory provision of approximately RMB31.1 million in the Prior Period, cost of sales would have increased by 10.3% in the Reporting Period, which was consistent with the increase in revenue volume. The Group's gross profit margin increased from 33.4% in the Prior Period to 42.1% in the Reporting Period. Excluding non-cash inventory provision of approximately RMB31.1 million, the Group's gross profit margin in the Prior Period would have been 38.3%. Gross profit rose by 48.0% from approximately RMB214.4 million in the Prior Period to approximately RMB317.4 million in the Reporting Period.

Other Income

Other income, consisting mainly of government grants, dropped by approximately RMB1.3 million from approximately RMB4.0 million in the Prior Period to approximately RMB2.7 million in the Reporting Period.

Other Gains/Losses, Net

Other gains, net of approximately RMB1.7 million recorded in the Reporting Period, compared to other losses, net of approximately RMB7.1 million in the Prior Period. Other gains/losses, net was mainly attributable to net exchange differences.

Reversal of Impairment Loss/Impairment Loss on Financial Assets

The amount represented reversal of impairment loss on or provision made for trade receivables. Reversal of impairment loss of approximately RMB0.9 million was recorded in the Reporting Period, compared to provision for impairment loss of approximately RMB1.5 million in the Prior Period.

Selling and Distribution Expenses

Selling and distribution expenses decreased by 11.6% from approximately RMB310.7 million in the Prior Period to approximately RMB274.7 million in the Reporting Period. Excluding effect of non-cash impairment provision of property, plant and equipment, and right-of-use assets amounted to approximately RMB20.3 million in the Prior Period, the decline in selling and distribution expenses was mainly attributed to intensified expense management on promotion and transportation costs.

General and Administrative Expenses

General and administrative expenses decreased by 1.7% from approximately RMB30.1 million in the Prior Period to approximately RMB29.6 million in the Reporting Period. The drop was mainly attributable to reduction in share-based payments and better cost control on other sundry expenses.

Finance Costs

Finance costs, consisting mainly of interest expenses arising from lease liabilities, dropped by approximately RMB1.4 million from approximately RMB6.0 million in the Prior Period to approximately RMB4.6 million in the Reporting Period.

Profit/Loss for the Period

A profit of approximately RMB12.0 million was recorded in the Reporting Period (Prior Period: loss of approximately RMB135.6 million).

Inventory, Trade Receivables and Payables Turnover Days

Inventory turnover days decreased from 224 days in the Prior Period to 175 days in the Reporting Period. Trade receivables turnover days decreased from 35 days in the Prior Period to 22 days in the Reporting Period. Trade payables turnover days decreased from 86 days in the Prior Period to 55 days in the Reporting Period.

Cash Conversion Cycle

Cash conversion cycle is a metric that shows the amount of time it takes a company to convert its investment in inventory to cash, which equals to inventory turnover days plus trade receivables turnover days minus trade payables turnover days. The cash conversion cycle of the Group decreased from 173 days in the Prior Period to 142 days in the Reporting Period.

Capital Expenditure

During the Reporting Period, the Group invested approximately RMB8.6 million in property, plant, and equipment, mainly to renovate existing shops (Prior Period: approximately RMB24.7 million).

Liquidity and Financial Resources

The Group's cash position as of 30 June 2021 was approximately RMB99.8 million, compared to approximately RMB53.8 million as of 31 December 2020. The current ratio and quick ratio as of 30 June 2021 were 2.0 and 1.0, respectively (31 December 2020: 2.1 and 1.0, respectively).

As of 30 June 2021, the Group had aggregate banking facilities of approximately RMB91.6 million (31 December 2020: approximately RMB77.3 million) for trade financing, of which approximately RMB45.3 million (31 December 2020: approximately RMB39.9 million) was unutilised as of the same date. These facilities were secured by corporate guarantees provided by the Company.

As of 30 June 2021, the Group had a loan facility from a related company of approximately RMB33.3 million (31 December 2020: approximately RMB33.7 million), of which approximately RMB33.0 million (31 December 2020: approximately RMB33.4 million) was utilised.

Charge of Assets

As of 30 June 2021, the Group had restricted cash of approximately RMB8.4 million for bank guarantee of trade finance facilities (31 December 2020: approximately RMB5.4 million).

Contingent Liabilities

As of 30 June 2021, the Group did not have significant contingent liabilities (31 December 2020: Nil).

Foreign Exchange

The Group is exposed to foreign exchange risk arising from exposure in the United States dollar, euro and Hong Kong dollar against renminbi. The Group currently does not have a foreign currency hedging policy. However, the management personnel of the Group (the "**Management**") monitor its foreign exchange risks regularly in keeping the net exposure to an acceptable level. Exchange rate fluctuations could affect the Group's margins and profitability.

RESULTS

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended 30 June	
		2021	2020
	Notes	RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	4	754,040	641,189
Cost of sales		(436,627)	(426,782)
Gross profit		317,413	214,407
Other income	5	2,716	3,952
Other gains/(losses), net	6	1,724	(7,065)
Reversal of impairment loss/(impairment loss) on financial assets		944	(1,502)
Selling and distribution expenses		(274,694)	(310,744)
General and administrative expenses		(29,560)	(30,145)
Operating profit/(loss)		18,543	(131,097)
Finance costs		(4,550)	(6,028)
Profit/(loss) before income tax		13,993	(137,125)
Income tax (expense)/credit	7	(1,945)	1,512
Profit/(loss) for the period		12,048	(135,613)
Other comprehensive (loss)/income, net of tax:			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
– Exchange differences on translation of foreign operations		(3,040)	5,735
Total comprehensive income/(loss) for the period		9,008	(129,878)

		Six months ended 30 June	
		2021	2020
<i>Notes</i>		<i>RMB'000</i>	<i>RMB'000</i>
		(unaudited)	(unaudited)
Profit/(loss) for the period attributable to:			
	– owners of the Company	12,314	(131,696)
	– non-controlling interest	(266)	(3,917)
		12,048	(135,613)
Total comprehensive income/(loss) for the period attributable to:			
	– owners of the Company	9,207	(125,833)
	– non-controlling interest	(199)	(4,045)
		9,008	(129,878)
Earnings/(loss) per share, basic and diluted			
	<i>(RMB cents)</i>	1.54	(16.46)
	10	1.54	(16.46)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 June 2021 <i>RMB'000</i> (unaudited)	At 31 December 2020 <i>RMB'000</i> (audited)
ASSETS			
Non-current assets			
Property, plant and equipment		35,087	38,899
Right-of-use assets	11	110,439	108,125
Intangible asset		8,454	8,795
Deposits and prepayments		4,932	2,079
Rental deposits		23,189	22,741
Deferred tax assets		22,946	24,401
		205,047	205,040
Current assets			
Inventories		423,426	419,865
Trade and bills receivables	12	96,950	94,235
Other receivables, deposits and prepayments		92,414	89,942
Right of return assets		1,251	2,246
Tax recoverable		56	56
Restricted cash		8,392	5,440
Bank balances and cash		91,445	48,334
		713,934	660,118
EQUITY			
Owners of the Company			
Share capital		6,931	6,931
Reserves		480,586	471,379
		487,517	478,310
Non-controlling interest		8,212	8,411
Total equity		495,729	486,721

		At 30 June 2021 <i>RMB'000</i> (unaudited)	At 31 December 2020 <i>RMB'000</i> (audited)
LIABILITIES			
Non-current liabilities			
Provision for reinstatement costs		4,262	5,222
Lease liabilities	11	<u>64,889</u>	<u>58,920</u>
		<u>69,151</u>	<u>64,142</u>
Current liabilities			
Trade payables	13	172,198	93,390
Other payables and accruals		74,399	92,392
Loan from a related company		33,036	33,413
Lease liabilities	11	56,133	70,056
Contract liabilities		11,987	19,081
Current tax liabilities		<u>6,348</u>	<u>5,963</u>
		<u>354,101</u>	<u>314,295</u>
Net current assets		<u>359,833</u>	<u>345,823</u>
Total assets less current liabilities		<u>564,880</u>	<u>550,863</u>
Net assets		<u><u>495,729</u></u>	<u><u>486,721</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the Six Months Ended 30 June 2021

1. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2021 has been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “**Interim Financial Reporting**” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2020, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial information has been prepared on the historical cost basis except for the financial asset at fair value through profit or loss (“**FVTPL**”) which is measured at fair value.

The accounting policies applied to this condensed consolidated interim financial information are consistent with those of the annual financial statements for the year ended 31 December 2020 as described in those annual financial statements except that income tax is accrued using the tax rate that would be applicable to expected total annual earnings and the adoption of new and amended standards as set out below.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the Group’s condensed consolidated interim financial information:

Amendments to HKFRS 16	COVID-19-related rent concession
Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest rate benchmark reform – Phase 2

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods, except for the Amendment to HKFRS 16 set out above.

The Group has early adopted HKFRS 16 (Amendment) “COVID-19-related rent concessions beyond 30 June 2021” (effective for annual periods beginning on or after 1 April 2021). The amendment extends the availability of the practical expedient in paragraph 46A of HKFRS 16 to cover lease payments related rent concessions that are originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The early adoption of HKFRS 16 (Amendment) does not have any impact to the Group for the six months ended 30 June 2021.

New and amended standards and interpretations not yet adopted

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2021 and have not been early adopted by the Group:

Standards	Key requirements	Effective for accounting periods beginning on or after
Amendments to HKAS 1	Classification of liabilities as current or non-current	1 January 2023
HKAS 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of accounting policies	1 January 2023
HKAS 8 (Amendment)	Definition of accounting estimates	1 January 2023
HKAS 12 (Amendment)	Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
HKFRS 3 (Amendments)	Reference to the Conceptual Framework	1 January 2022
HKFRS 17	Insurance Contracts	1 January 2023
HKFRSs (Amendments)	Annual improvements 2018–2020 cycle	1 January 2022
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
HK (IFRIC) – Int 5	Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause	1 January 2023

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

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

3. ESTIMATION

The preparation of condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2020.

4. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in trading and sales of toys and related lifestyle products.

The Group determines its operating segments based on the reports reviewed by the executive directors of the Company, the chief operating decision maker, that are used to make strategic decisions. The Group's operating segments are classified as the geographic area (i) the People's Republic of China (the "PRC"); and (ii) Hong Kong and overseas, which are based on the geographic area of the operations carried out by the Group. No operating segments have been aggregated in arriving at the reporting segments of the Group.

Segment revenue and results

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

Six months ended 30 June 2021

(Unaudited)	The PRC RMB'000	Hong Kong and overseas RMB'000	Inter-segment elimination RMB'000	Total RMB'000
Revenue				
– Revenue recognised at a point in time	<u>672,300</u>	<u>106,996</u>	<u>(25,256)</u>	<u>754,040</u>
Segment results	<u>13,071</u>	<u>5,758</u>		18,829
Unallocated other income				160
Unallocated corporate expenses				(6,471)
Unallocated other gains, net				1,864
Unallocated finance costs				<u>(389)</u>
Profit before income tax				13,993
Income tax expense				<u>(1,945)</u>
Profit for the period				<u>12,048</u>

Six months ended 30 June 2020

(Unaudited)	The PRC <i>RMB'000</i>	Hong Kong and overseas <i>RMB'000</i>	Inter-segment elimination <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue				
– Revenue recognised at a point in time	<u>574,847</u>	<u>87,860</u>	<u>(21,518)</u>	<u>641,189</u>
Segment results	<u>(127,090)</u>	<u>5,246</u>		(121,844)
Unallocated other income				181
Unallocated corporate expenses				(8,282)
Unallocated other losses, net				(6,885)
Unallocated finance costs				<u>(295)</u>
Loss before income tax				(137,125)
Income tax credit				<u>1,512</u>
Loss for the period				<u><u>(135,613)</u></u>

Sales and distribution channels

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

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

	Six months ended 30 June	
	2021 <i>RMB'000</i> (unaudited)	2020 <i>RMB'000</i> (unaudited)
Self-operated retail channels		
– Retail shops	351,365	267,994
– Consignment counters	207,529	185,055
– Online stores	39,373	49,211
Wholesale channels		
– Distributors	131,252	109,449
– Hypermarket and supermarket chains	14,376	9,587
– Online key accounts	10,145	19,893
	<u>754,040</u>	<u>641,189</u>

5. OTHER INCOME

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest income	160	181
Government grants (<i>Note</i>)	1,778	2,620
Sundry income	778	1,151
	<u>2,716</u>	<u>3,952</u>

Note: The Group recognises various government grants from the local government authorities for subsidising the operating activities and acquisition of fixed assets.

6. OTHER GAINS/(LOSSES), NET

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net exchange gain/(loss)	1,499	(7,154)
Gain on fair value changes of financial asset at fair value through profit or loss	365	269
Loss on disposal of property, plant and equipment	–	(3)
Others	(140)	(177)
	<u>1,724</u>	<u>(7,065)</u>

7. INCOME TAX EXPENSE/(CREDIT)

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current income tax		
– Hong Kong and overseas profits tax	447	468
– PRC corporate income tax	62	(1,980)
	<u>509</u>	<u>(1,512)</u>
Deferred tax	1,436	–
	<u>1,945</u>	<u>(1,512)</u>

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

8. EXPENSES BY NATURE

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

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Auditors' remuneration		
– Audit services	1,096	1,155
– Non-audit services	–	–
Amortisation of intangible asset	242	263
Depreciation of property, plant and equipment	12,345	21,926
Depreciation of right-of-use assets (note 11(ii))	38,770	57,604
Impairment loss on property, plant and equipment (Note)	–	9,530
Impairment loss on right-of-use assets (Note)	–	10,765
Cost of inventories	427,257	379,061
Rental expenses in respect of		
– variable leases payments (note 11(ii))	7,552	6,977
– short term leases (note 11(ii))	7,502	8,211
Rent concessions (note 11(ii))	–	(7,700)
Advertising and promotional expenses	18,638	27,708
Concessionaire fees	66,709	63,944
Employee benefit expenses (including directors' emoluments)	47,563	39,922
Outsourced personnel service fees	49,799	48,790
(Reversal of)/provision for impairment loss on trade receivables	(944)	1,502
Provision for impairment loss on inventories, net (included in cost of sales)	–	31,131
Transportation costs	12,900	22,056
Building management fees	16,035	15,344

Note: The Group determines each individual retail store as a separately identifiable cash-generating unit (the “CGU”) and monitors their financial performance. No provision for impairment of the Group’s property, plant and equipment and right-of-use assets for the six months ended 30 June 2021 (2020: RMB9,530,000 and RMB10,765,000, respectively) was made based on an impairment assessment carried out for the retail store assets which have an impairment indicator. The recoverable amounts are based on value-in-use calculations which involved projected cash flows and key assumptions such as future revenue growth rate and gross profit margin percentage of individual CGUs based on the Group’s annual budget.

9. DIVIDENDS

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2021 (2020: nil).

10. EARNINGS/(LOSS) PER SHARE

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

	Six months ended 30 June	
	2021	2020
Profit/(loss) attributable to the owners of the Company (in RMB'000)	<u>12,314</u>	<u>(131,696)</u>
Weighted average number of ordinary shares for the purpose of calculation of earnings/(loss) per share (in '000)	<u>800,000</u>	<u>800,000</u>

The computation of diluted earnings/(loss) per share for the six months ended 30 June 2021 does not assume the exercise of the Company's outstanding share options since they would have an anti-dilutive impact to the basic earnings/(loss) per share (2020: same).

11. LEASES

This note provides information for leases where the Group is a lessee.

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

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

	At 30 June 2021 RMB'000 (unaudited)	At 31 December 2020 RMB'000 (audited)
Right-of-use assets		
– Leased premises	132,922	134,751
Less: Impairment provision	<u>(22,483)</u>	<u>(26,626)</u>
	<u>110,439</u>	<u>108,125</u>
Lease liabilities		
Current	56,133	70,056
Non-current	<u>64,889</u>	<u>58,920</u>
	<u>121,022</u>	<u>128,976</u>

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

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

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Depreciation of right-of-use assets (<i>note 8</i>)	38,770	57,604
Impairment loss on right-of-use assets (<i>note 8</i>)	–	10,765
Interest expenses (included in finance costs)	4,161	5,733
Expense relating to short-term leases (<i>note 8</i>)	7,502	8,211
Expense relating to variable lease payments not included in lease liabilities (<i>note 8</i>)	7,552	6,977
Rent concessions (<i>note 8</i>)	–	(7,700)

12. TRADE AND BILLS RECEIVABLES

	At	At
	30 June	31 December
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(audited)
Trade receivables from contracts with customers	102,594	104,545
Less: Provision for impairment	(9,365)	(10,310)
	93,229	94,235
Bills receivables	3,721	–
	96,950	94,235

The following is an aging analysis of trade receivables presented based on the invoice date.

	At	At
	30 June	31 December
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(audited)
Within 30 days	57,026	64,532
31 to 60 days	22,766	14,868
61 to 90 days	6,204	7,089
91 to 180 days	5,231	5,295
Over 180 days	11,367	12,761
	102,594	104,545
Less: Provision for impairment	(9,365)	(10,310)
	93,229	94,235

13. TRADE PAYABLES

The credit periods on trade payables offered by suppliers are within 60 to 90 days. The following is an aging analysis of trade payables presented based on the invoice date.

	At 30 June 2021 <i>RMB'000</i> (unaudited)	At 31 December 2020 <i>RMB'000</i> (audited)
Within 30 days	75,623	76,650
31 to 60 days	86,202	9,032
61 to 90 days	4,149	2,810
Over 90 days	6,224	4,898
	<hr/> 172,198 <hr/>	<hr/> 93,390 <hr/>

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

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

As stated in the prospectus of the Company dated 31 October 2017 (the “**Prospectus**”), the Company intended to use the Net Proceeds to (i) expand the Group’s retail network in Mainland China and Hong Kong; (ii) strengthen the Group’s capabilities in product development for the Group’s existing brands or new brands; (iii) develop experience centres and associated products; and (iv) bolster its working capital.

An analysis of the utilisation of the Net Proceeds from the Listing Date up to 30 June 2021 is set out below:

	Use of the Net Proceeds as stated in the Prospectus (amount adjusted per final offer price) <i>HK\$ million</i>	Actual use of the Net Proceeds as of 30 June 2021 <i>HK\$ million</i>	Actual use of the Net Proceeds during the Reporting Period <i>HK\$ million</i>	Unused Net Proceeds as of 30 June 2021 <i>HK\$ million</i>	Further information
Expand the Group’s retail network in Mainland China and Hong Kong					
– Opening flagship toy stores in Mainland China	60.5	60.5	–	–	The full amount has been utilised as intended.
– Opening Kidsland and Babyland stores in Mainland China	46.1	46.1	–	–	The full amount has been utilised as intended.
– Opening LEGO Certified Stores in Mainland China and Hong Kong	34.6	34.6	–	–	The full amount has been utilised as intended.
– Upgrading the information technology system, developing e-commerce business, upgrading store image and visual display, and paying for other marketing expenses at the retail points	34.6	34.6	–	–	The full amount has been utilised as intended.

	Use of the Net Proceeds as stated in the Prospectus (amount adjusted per final offer price) <i>HK\$ million</i>	Actual use of the Net Proceeds as of 30 June 2021 <i>HK\$ million</i>	Actual use of the Net Proceeds during the Reporting Period <i>HK\$ million</i>	Unused Net Proceeds as of 30 June 2021 <i>HK\$ million</i>	Further information
Strengthen the Group's product development capabilities	51.9	51.9	–	–	The full amount has been utilised as intended.
Develop experience centres and associated products	31.7	24.9	3.6	6.8	The remaining amount is planned to be utilised by 31 December 2021 as originally intended. However, given the unfavourable factors as a result of the COVID-19, the progress of the development of experience centres and associated products may be affected. Accordingly, the Management will re-assess and, where necessary, revise the timeline of the said development by the third quarter of 2021.
Working capital and other general corporate purposes	28.9	28.9	–	–	The full amount has been utilised as intended.
	<u>288.3</u>	<u>281.5</u>	<u>3.6</u>	<u>6.8</u>	

As of the date of this announcement, the amount of Net Proceeds not yet utilised is approximately HK\$6.8 million. The Company has used and/or intends to use the unused Net Proceeds in the same manner as disclosed in the Prospectus.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

SIGNIFICANT INVESTMENT HELD AND MATERIAL ACQUISITION AND DISPOSAL

During the Reporting Period, there was no significant investments held by the Group.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the section headed “Use of Proceeds from Initial Public Offering”, as of 30 June 2021, the Group has no other future plans for material investments or capital assets.

CAPITAL STRUCTURE

As of 30 June 2021, the Company’s share capital comprised 800,000,000 issued ordinary shares with nominal value of HK\$0.01 each. There was no change in the share capital of the Company during the Reporting Period.

EMPLOYEES AND REMUNERATION POLICY

As of 30 June 2021, the Group had approximately 1,700 employees (including both in-house and outsourced employees) (30 June 2020: approximately 1,900 employees) in Mainland China, Hong Kong and Macau. Total remuneration for in-house and outsourced employees for the Reporting Period amounted to approximately RMB47.6 million and RMB49.8 million, respectively (Prior Period: approximately RMB39.9 million and RMB48.8 million, respectively). The Group’s remuneration packages comply with legislation in relevant jurisdictions and are decided based on market conditions and employees’ levels of experience and qualifications; bonuses are awarded based on employee performance and the Group’s financials. The Company has adopted two share option schemes on 20 October 2017. The Group has been ensuring adequate training and professional development opportunities to employees.

EVENTS AFTER THE REPORTING PERIOD

No important event affecting the Group that had taken place after 30 June 2021 and up to the date of this announcement.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted and applied the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the “**CG Code**”) as its own code on corporate governance. The Company has complied with all applicable code provisions as set out in the CG Code for the Reporting Period except for the deviation as stated below:

Code provision A.2.1 stipulates that the roles of chairman (the “**Chairman**”) and chief executive officer (the “**CEO**”) should be separate and should not be performed by the same individual. Both positions are currently held by Mr. Lee Ching Yiu. As the founder of the Group, Mr. Lee Ching Yiu has substantial experience in the toy industry. The Directors consider that the present structure provides the Group with strong and consistent leadership which facilitates the development of the Group’s business strategies and execution of its business plans in the most efficient and effective manner. The Directors believe that it is in the best interest of the Company and its shareholders (the “**Shareholders**”) as a whole that Mr. Lee Ching Yiu continues to assume the roles of the Chairman and the CEO.

SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE AND REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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

The condensed consolidated interim financial information has been reviewed by PricewaterhouseCoopers, the Company’s independent auditor, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

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

GRATITUDE

I, on behalf of the Board, would like to take this opportunity to express my sincere gratitude to all our staff for their dedication and cooperation and to all our Shareholders for their support, particularly in stabilizing while strengthening our business when facing many unprecedented challenges caused by the COVID-19.

By order of the Board

Kidsland International Holdings Limited

Lee Ching Yiu

Chairman, Chief Executive Officer and Executive Director

Hong Kong, 31 August 2021

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