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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 2022

HIGHLIGHTS

- During the Reporting Period, revenue of the Group decreased by 19.9% from approximately RMB754.0 million for the Prior Period to approximately RMB603.8 million.
 - Resulted from impact of the resurgence of COVID-19, revenue from self-operated retail channels and wholesale channels recorded a decrease of 16.0% to approximately RMB502.4 million and 34.9% to approximately RMB101.4 million, respectively.
 - Revenue from Hong Kong and overseas (after inter-segment elimination) recorded an increase of 18.3% to approximately RMB96.7 million in the Reporting Period.
- Gross profit dropped from approximately RMB317.4 million in the Prior Period to approximately RMB237.4 million in the Reporting Period. Gross profit margin decreased from 42.1% in the Prior Period to 39.3% in the Reporting Period.
- Total selling, distribution, general and administrative expenses decreased by 8.0% from approximately RMB304.3 million for the Prior Period to approximately RMB279.9 million.
- A net loss after tax of approximately RMB63.6 million was recorded in the Reporting Period, compared to a net profit after tax of approximately RMB12.0 million in the Prior Period.
- Due to the sharp depreciation in RMB, a net exchange loss of approximately RMB15.4 million was recorded in the Reporting Period. An adjusted loss of approximately RMB48.2 million would have been recorded, without taking into account of such net exchange loss.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Kidsland International Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) reported a net loss after tax of approximately RMB63.6 million for the six months ended 30 June 2022 (the “**Reporting Period**”), compared to a net profit after tax of approximately RMB12.0 million for the six months ended 30 June 2021 (the “**Prior Period**”). Due to the sharp depreciation in RMB, a net exchange loss of approximately RMB15.4 million was recorded in the Reporting Period. An adjusted loss of approximately RMB48.2 million would have been recorded, without taking into account of such net exchange loss.

The resurgence of Coronavirus Disease 2019 (the “**COVID-19**”) in Mainland China during the Reporting Period proved to be more damaging to the Group’s business than the initial COVID-19 outbreak that took place in 2020. There were more regions and cities across Mainland China that were affected by the COVID-19 outbreak in 2022. The Group’s business traditionally concentrated more in first tier cities in Mainland China, where it happened to be more seriously impacted by the various lockdown and suspension of logistic support measures.

However, the Group’s sales in Mainland China have been steadily improving in June and July 2022 when the impact from the current wave of COVID-19 outbreak tapered off. During the Reporting Period, the Group had also accelerated the e-commerce efforts, particularly the neighbourhood e-commerce and group buys, that leveraged our retail network very well.

In Mainland China, the Group continued to optimise our retail network and negotiated rent concessions to improve our cashflow and profitability. In addition, the Group expects to open three to five LEGO Certified Store in Mainland China in second half of 2022. The Group is also going to represent another top international toy brand to open single brand stores in 2023, which will mark a major milestone and achievement for the Group.

On the product front, the Group is introducing a number of strong product lines from a few top international toy brands, that would help increase the assortment for boys and the diversity and passion points for girls. The expansion and upgrade in product assortment is expected to drive the Group’s sales and profitability meaningfully.

In Hong Kong, the Group expects to continue to expand its LEGO Certified Store and kkplus kidsland retail network to help drive the growth of the Group’s business and profitability.

RETAIL AND WHOLESALE BUSINESS

Our extensive distribution network comprises self-operated retail channels and wholesale channels. As of 30 June 2022, this network comprised:

Self-operated Retail Channels

- 614 self-operated retail points of sale consisting of retail shops and consignment counters (30 June 2021: 642)
- 21 online stores (30 June 2021: 24)

Wholesale Channels

- 515 distributors (30 June 2021: 578) which onsell our products through third party retailers or at their own retail shops, which totaled to more than 1,900 (30 June 2021: more than 2,300)
- 12 hypermarket and supermarket chains (30 June 2021: 12) with a sum of 682 retail points (30 June 2021: 682)
- 5 online key accounts (30 June 2021: 6)

Detailed breakdowns of our distribution network are set out below:

1. Self-operated Retail Channels

1.1 Retail Shops

During the Reporting Period, we continuously optimised our store network.

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

	Six months ended 30 June	
	2022	2021
Retail shops		
At the beginning of the period	185	202
Addition of new retail shops	9	11
Closure of retail shops	(13)	(24)
At the end of the period	181	189

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 optimise our network of consignment counters.

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

	Six months ended 30 June	
	2022	2021
Consignment counters		
At the beginning of the period	442	468
Addition of new consignment counters	15	6
Closure of consignment counters	(24)	(21)
	<hr/>	<hr/>
At the end of the period	433	453
	<hr/> <hr/>	<hr/> <hr/>

1.3 *Online Stores*

During the Reporting Period, we launched 2 and closed 2 flagship stores of brands that we represented on third-party-operated online platforms such as Tmall and JD.com. As of 30 June 2022, we had 21 online stores in total, compared with 24 as of 30 June 2021.

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 2022, we had 515 distributors (30 June 2021: 578), which onsell our products through third party retailers or at their own retail shops, which totaled to more than 1,900 (30 June 2021: more than 2,300) in Mainland China.

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

	Six months ended 30 June	
	2022	2021
Distributors		
At the beginning of the period	521	580
Addition of new distributors	42	51
Expiry without renewal of distribution agreements	(48)	(53)
	<u>515</u>	<u>578</u>
At the end of the period	<u>515</u>	<u>578</u>

2.2 *Hypermarket and Supermarket Chains*

As of 30 June 2022, we had wholesale arrangements with 12 hypermarket and supermarket chains (30 June 2021: 12) with a sum of 682 retail points (30 June 2021: 682) 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	
	2022	2021
Hypermarket and supermarket chains		
At the beginning of the period	12	16
Addition of new hypermarket and supermarket chains	–	1
Termination or expiry of agreements with hypermarket and supermarket chains	–	(5)
	<u>12</u>	<u>12</u>
At the end of the period	<u>12</u>	<u>12</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	
	2022	2021
Online key accounts		
At the beginning of the period	6	5
Addition of new online key accounts	–	1
Termination or expiry of agreements with online key accounts	(1)	–
	<hr/>	<hr/>
At the end of the period	5	6
	<hr/> <hr/>	<hr/> <hr/>

FINANCIAL REVIEW

Revenue

During the Reporting Period, revenue of the Group decreased by 19.9% from approximately RMB754.0 million for the Prior Period to approximately RMB603.8 million.

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Self-operated retail channels		
– Retail shops	317,668	351,365
– Consignment counters	150,420	207,529
– Online stores	34,320	39,373
Sub-total:	502,408	598,267
Wholesale channels		
– Distributors	87,668	131,252
– Hypermarket and supermarket chains	9,323	14,376
– Online key accounts	4,394	10,145
Sub-total:	101,385	155,773
Total:	603,793	754,040

Self-operated Retail Channels

The self-operated retail channels recorded a decrease in revenue of 16.0% to approximately RMB502.4 million during the Reporting Period compared to the Prior Period, resulted from impact of the resurgence of COVID-19. Revenue from retail shops, consignment counters and online stores dropped by 9.6% to approximately RMB317.7 million, 27.5% to approximately RMB150.4 million and 12.8% to approximately RMB34.3 million, respectively.

Wholesale Channels

During the Reporting Period, revenue contributed by wholesale channels also decreased by 34.9% to approximately RMB101.4 million. Revenue from distributors, hypermarket and supermarket chains and online key accounts dropped by 33.2% to approximately RMB87.7 million, 35.1% to approximately RMB9.3 million and 56.7% to approximately RMB4.4 million, respectively.

Revenue from Hong Kong and overseas (after inter-segment elimination) recorded an increase of 18.3% from approximately RMB81.7 million for the Prior Period to approximately RMB96.7 million during the Reporting Period.

Cost of Sales, Gross Profit and Gross Profit Margin

Cost of sales decreased by 16.1% from approximately RMB436.6 million in the Prior Period to approximately RMB366.4 million in the Reporting Period, which was consistent with the decrease in revenue. The Group's gross profit margin decreased from 42.1% in the Prior Period to 39.3% in the Reporting Period. Gross profit dropped from approximately RMB317.4 million in the Prior Period to approximately RMB237.4 million in the Reporting Period.

Other Income

Other income, consisting mainly of government grants, dropped by approximately RMB0.9 million from approximately RMB2.7 million in the Prior Period to approximately RMB1.8 million in the Reporting Period.

Other Losses/Gains, Net

Other losses, net of approximately RMB15.3 million recorded in the Reporting Period, compared to other gains, net of approximately RMB1.7 million in the Prior Period. Other losses/gains, net was mainly attributable to net exchange differences.

Impairment Loss/Reversal of Impairment Loss on Financial Assets

The amount represented impairment loss on or provision made for trade receivables. Provision for impairment loss of approximately RMB1.0 million was recorded in the Reporting Period, compared to reversal of impairment loss of approximately RMB0.9 million in the Prior Period.

Selling and Distribution Expenses

Selling and distribution expenses decreased by 9.0% from approximately RMB274.7 million in the Prior Period to approximately RMB250.0 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 RMB5.5 million (Prior Period: Nil), the decline in selling and distribution expenses was consistent with the decrease in revenue and attributed to intensified expense management on promotion costs.

General and Administrative Expenses

General and administrative expenses remained stable over the Reporting Period of approximately RMB29.9 million and the Prior Period of approximately RMB29.6 million.

Finance Costs

Finance costs, consisting mainly of interest expenses arising from lease liabilities, slightly increased by approximately RMB0.5 million from approximately RMB4.6 million in the Prior Period to approximately RMB5.1 million in the Reporting Period.

Loss/Profit for the Period

A loss of approximately RMB63.6 million was recorded in the Reporting Period (Prior Period: profit of approximately RMB12.0 million).

Inventory, Trade Receivables and Payables Turnover Days

Inventory turnover days increased from 175 days in the Prior Period to 225 days in the Reporting Period. Trade receivables turnover days increased from 22 days in the Prior Period to 25 days in the Reporting Period. Trade payables turnover days increased from 55 days in the Prior Period to 64 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 increased from 142 days in the Prior Period to 186 days in the Reporting Period.

Capital Expenditure

During the Reporting Period, the Group invested approximately RMB10.7 million in property, plant, and equipment, mainly to renovate existing shops (Prior Period: approximately RMB8.6 million).

Liquidity and Financial Resources

The Group's cash position as of 30 June 2022 was approximately RMB42.4 million, compared to approximately RMB25.4 million as of 31 December 2021. The current ratio calculated by dividing total current assets by total current liabilities and quick ratio calculated by dividing total current assets excluding inventories and right of return assets by total current liabilities excluding lease liabilities as of 30 June 2022 were 1.8 and 0.7, respectively (31 December 2021: 1.9 and 0.7, respectively).

As of 30 June 2022, the Group had aggregate banking facilities of approximately RMB112.0 million (31 December 2021: approximately RMB90.4 million) for bank loans and trade financing, of which approximately RMB50.4 million (31 December 2021: approximately RMB52.5 million) was unutilised as of the same date. These facilities are secured by corporate guarantees provided by the Company.

As of 30 June 2022, the Group had a loan facility from a related company of approximately RMB55.6 million (31 December 2021: approximately RMB53.1 million), of which approximately RMB42.3 million (31 December 2021: approximately RMB40.5 million) was utilised.

Charge of Assets

As of 30 June 2022, the Group had restricted cash of approximately RMB5.4 million for bank guarantee of a trade finance facility (31 December 2021: approximately RMB5.4 million).

Contingent Liabilities

As of 30 June 2022, the Group did not have significant contingent liabilities (31 December 2021: 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 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	
		2022	2021
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(unaudited)	(unaudited)
Revenue	4	603,793	754,040
Cost of sales	8	(366,408)	(436,627)
Gross profit		237,385	317,413
Other income	5	1,808	2,716
Other (losses)/gains, net	6	(15,284)	1,724
(Impairment loss)/reversal of impairment loss on financial assets	8	(1,002)	944
Selling and distribution expenses	8	(249,976)	(274,694)
General and administrative expenses	8	(29,915)	(29,560)
Operating (loss)/profit		(56,984)	18,543
Finance costs		(5,095)	(4,550)
(Loss)/profit before income tax		(62,079)	13,993
Income tax expense	7	(1,544)	(1,945)
(Loss)/profit for the period		(63,623)	12,048
Other comprehensive income/(loss), net of tax:			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
– Exchange differences on translation of foreign operations		12,106	(3,040)
Total comprehensive (loss)/income for the period		(51,517)	9,008
(Loss)/profit for the period attributable to:			
– owners of the Company		(61,960)	12,314
– non-controlling interest		(1,663)	(266)
		(63,623)	12,048

		Six months ended 30 June	
		2022	2021
<i>Notes</i>		<i>RMB'000</i>	<i>RMB'000</i>
		(unaudited)	(unaudited)
Total comprehensive (loss)/income for the period attributable to:			
– owners of the Company		(49,598)	9,207
– non-controlling interest		(1,919)	(199)
		<u>(51,517)</u>	<u>9,008</u>
(Loss)/earnings per share, basic and diluted <i>(RMB cents)</i>		(7.75)	1.54
<i>10</i>		<u>(7.75)</u>	<u>1.54</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 June 2022 <i>RMB'000</i> (unaudited)	At 31 December 2021 <i>RMB'000</i> (audited)
ASSETS			
Non-current assets			
Property, plant and equipment		38,158	37,496
Right-of-use assets	11	122,096	129,716
Intangible assets		12,260	12,361
Financial asset at fair value through profit or loss (“FVTPL”)		290	290
Deposits paid for acquisition of property, plant and equipment		429	–
Rental deposits		32,820	31,113
Deferred tax assets		22,050	22,097
		228,103	233,073
Current assets			
Inventories		438,535	472,052
Trade and bill receivables	12	75,616	98,510
Other receivables, deposits and prepayments		65,291	75,865
Right of return assets		305	2,210
Tax recoverable		–	56
Restricted cash		5,380	5,405
Bank balances and cash		37,014	19,984
		622,141	674,082
EQUITY			
Owners of the Company			
Share capital		6,931	6,931
Reserves		415,309	464,907
		422,240	471,838
Non-controlling interest		7,396	9,315
Total equity		429,636	481,153

		At 30 June 2022 <i>RMB'000</i> (unaudited)	At 31 December 2021 <i>RMB'000</i> (audited)
LIABILITIES			
Non-current liabilities			
Provision for reinstatement costs		5,960	5,919
Lease liabilities	11	<u>59,614</u>	<u>69,746</u>
		<u>65,574</u>	<u>75,665</u>
Current liabilities			
Trade payables	13	113,867	143,602
Other payables and accruals		84,157	77,073
Loan from a related company		42,337	40,475
Bank borrowings		21,380	–
Lease liabilities	11	76,625	71,582
Contract liabilities		9,123	11,780
Current tax liabilities		<u>7,545</u>	<u>5,825</u>
		<u>355,034</u>	<u>350,337</u>
Net current assets		<u>267,107</u>	<u>323,745</u>
Total assets less current liabilities		<u>495,210</u>	<u>556,818</u>
Net assets		<u><u>429,636</u></u>	<u><u>481,153</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the Six Months Ended 30 June 2022

1. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2022 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 2021, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

Going concern basis

During the six months ended 30 June 2022, the Group reported a loss before income tax of RMB62,079,000 and its total bank borrowings, all classified as current liabilities, amounted to RMB21,380,000.

Based on unaudited consolidated interim financial information as at 30 June 2022, the directors became aware that the Group may not have complied with a restrictive financial covenant of its revolving loan facility amounting to RMB21,380,000. Such non-compliance of covenant may cause the relevant revolving loan facility to become immediately due and payable.

The Group’s business has been negatively impacted by the weak market sentiment amidst the Coronavirus Disease 2019 (“**COVID-19**”) pandemic during the six months ended 30 June 2022. The COVID-19 pandemic has continued to affect China (the “**PRC**”) in 2022 and a series of precautionary and control measures have been and continued to be implemented in the PRC. Key cities where the Group operates, including Beijing and Shanghai, have experienced various extents of lockdown in connection with such measures. These measures together with poor consumer sentiment caused by the pandemic have caused short-term disruption to the Group’s operations in the PRC. Also, it is uncertain whether the COVID-19 pandemic will continue and whether the restrictions and control measures will have a prolonged impact to the Group’s operating performance and cash flows.

In view of such circumstances, the directors of the Company have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. Certain plans and measures have been taken to mitigate the liquidity pressure and to improve its financial position which include, but not limited to, the followings:

- (i) as soon as the directors were aware of the potential non-compliance, the Group obtained an email confirmation from the relevant bank notifying the Company that the bank will not take any action to demand for repayment of loan with regard to the relevant non-compliance. The directors, based upon their communication with the bank, are confident that the existing bank loans and facilities will continue to be available to the Group in the next twelve months from 30 June 2022;
- (ii) as at 30 June 2022, the Group has available banking facility of RMB10,000,000 from another financial institution and another unutilised loan facility of approximately RMB13,300,000 from a related company. On 26 August 2022, the unutilised loan facility from the related party was increased to RMB30,404,000. The Group will draw down the loans to finance its operations, if needed;

- (iii) the directors of the Company are of the opinion that the sales performance and the operating cash flow of the Group will improve in the next twelve months mainly driven by the easing of negative impact of COVID-19; and
- (iv) the Group will continue to seek for other alternative financing and bank borrowings to finance the settlement of the existing financial obligations and future operating and capital expenditure.

The directors of the Company have reviewed the Group's cash flow projections prepared by management. The cash flow projections cover a period of twelve months from 30 June 2022. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 30 June 2022. Accordingly, the directors are satisfied that it is appropriate to prepare the condensed consolidated interim financial information on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies applied to this condensed consolidated interim financial information are consistent with those of the annual financial statements for the year ended 31 December 2021 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 amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA, which are mandatorily effective for the annual period beginning on or after 1 January 2022 for the preparation of the Group's condensed consolidated interim financial information:

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2018–2020
HKFRS 3, HKAS 16 and HKAS 37 (Amendments)	Narrow-scope Amendments
Revised Accounting Guideline 5	Merger Accounting for Common Control Combinations

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.

New and amended standards and interpretations not yet adopted

The following new standards and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2022 and have not been early adopted by the Group:

		Effective for accounting periods beginning on or after
HKAS 1 (Amendments)	Classification of liabilities as current or non-current	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
HKAS 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of accounting policies	1 January 2023
HKAS 8 (Amendments)	Definition of accounting estimates	1 January 2023
HKAS 12 (Amendments)	Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group will adopt the new standards, new interpretations and amended standards 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 2021 except for the estimation of income tax.

Income tax expense is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year.

4. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in trading and sale 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 2022

(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>507,109</u>	<u>107,217</u>	<u>(10,533)</u>	<u>603,793</u>
Reportable segment results	<u>(48,148)</u>	<u>7,250</u>		(40,898)
Unallocated other income				104
Unallocated corporate expenses				(5,251)
Unallocated other losses, net				(15,411)
Unallocated finance costs				<u>(623)</u>
Loss before income tax				(62,079)
Income tax expense				<u>(1,544)</u>
Loss for the period				<u>(63,623)</u>

Six months ended 30 June 2021

(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>672,300</u>	<u>106,996</u>	<u>(25,256)</u>	<u>754,040</u>
Reportable 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>

Sales and distribution channels

The Group has a diverse retail network and an extensive distribution network. The Group sells toys 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	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Self-operated retail channels		
– Retail shops	317,668	351,365
– Consignment counters	150,420	207,529
– Online stores	34,320	39,373
Wholesale channels		
– Distributors	87,668	131,252
– Hypermarket and supermarket chains	9,323	14,376
– Online key accounts	4,394	10,145
	603,793	754,040

5. OTHER INCOME

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest income	104	160
Government grants (<i>Note</i>)	1,490	1,778
Sundry income	214	778
	1,808	2,716

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

6. OTHER (LOSSES)/GAINS, NET

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net exchange (loss)/gain	(15,411)	1,499
Gain on fair value changes of financial asset at FVTPL	–	365
Gain on lease modifications	80	–
Others	47	(140)
	(15,284)	1,724

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Current income tax		
– Hong Kong and overseas profits tax	1,460	447
– PRC corporate income tax	–	62
	<u>1,460</u>	<u>509</u>
Over-provision in prior years		
– Hong Kong and overseas profits tax	(66)	–
Deferred tax	<u>150</u>	<u>1,436</u>
	<u><u>1,544</u></u>	<u><u>1,945</u></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, selling and distribution expenses, and general and administrative expenses are analysed as follows:

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Auditors' remuneration		
– Audit services	1,118	1,096
Amortisation of intangible assets	464	242
Depreciation of property, plant and equipment	9,657	12,345
Depreciation of right-of-use assets (<i>note 11 (ii)</i>)	43,828	38,770
Impairment loss on property, plant and equipment (<i>Note</i>)	811	–
Impairment loss on right-of-use assets (<i>Note</i>)	4,680	–
Cost of inventories	358,819	427,257
Rental expenses in respect of:		
– variable leases payments (<i>note 11 (ii)</i>)	4,842	7,552
– short-term leases (<i>note 11 (ii)</i>)	21,788	15,053
Rent concessions (<i>note 11 (ii)</i>)	(4,325)	–
Advertising and promotional expenses	8,657	18,638
Concessionaire fees	48,796	66,709
Employee benefit expenses (including directors' emoluments)	51,296	47,563
Outsourced personnel service fees	48,763	49,799
Provision for/(reversal of) impairment loss on trade receivables	1,002	(944)
Reversal of impairment loss on inventories, net (included in cost of sales)	(34)	–
Transportation costs	9,063	12,900
Building management fees	15,790	16,035

Note: The Group determines each individual retail store as a separately identifiable cash-generating unit (the “CGU”) and monitors their financial performance. A provision for impairment of the Group’s property, plant and equipment and right-of-use assets of RMB811,000 and RMB4,680,000, respectively for the six months ended 30 June 2022 (2021: nil) was made based on impairment assessment carried out for the retail store assets which have an impairment indicator. Such impairment losses were recorded in selling and distribution expenses. The recoverable amounts are based on value-in-use calculations. These calculations used projected cash flows and key assumptions such as future revenue growth rate and gross margin percentage of individual CGUs based on the Group’s annual budget covering an average of 2-year period. A discount rate of 10.78% (2021: 10.78%) was applied to bring the future cash flows back to their present values.

9. DIVIDENDS

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2022 (2021: nil).

10. (LOSS)/EARNINGS PER SHARE

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

	Six months ended 30 June	
	2022	2021
(Loss)/profit attributable to the owners of the Company (<i>in RMB’000</i>)	<u>(61,960)</u>	<u>12,314</u>
Weighted average number of ordinary shares for the purpose of calculation of (loss)/earnings per share (<i>in ’000</i>)	<u>800,000</u>	<u>800,000</u>

The computation of diluted (loss)/earnings per share for the six months ended 30 June 2022 does not assume the exercise of the Company’s outstanding share options since they would have an anti-dilutive impact to the basic (loss)/earnings per share (2021: 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 2022 RMB'000 (unaudited)	At 31 December 2021 RMB'000 (audited)
Right-of-use assets		
– Leased premises	147,327	150,448
Less: Impairment provision	<u>(25,231)</u>	<u>(20,732)</u>
	<u>122,096</u>	<u>129,716</u>
Lease liabilities		
Current	76,625	71,582
Non-current	<u>59,614</u>	<u>69,746</u>
	<u>136,239</u>	<u>141,328</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	
	2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Depreciation of right-of-use assets (<i>note 8</i>)	43,828	38,770
Impairment loss on right-of-use assets (<i>note 8</i>)	4,680	–
Interest expenses (included in finance costs)	4,472	4,161
Expense relating to short-term leases (<i>note 8</i>)	21,788	15,053
Expense relating to variable lease payments not included in lease liabilities (<i>note 8</i>)	4,842	7,552
Gain on lease modifications	80	–
Rent concessions (<i>note 8</i>)	(4,325)	–

12. TRADE AND BILL RECEIVABLES

	At 30 June 2022 <i>RMB'000</i> (unaudited)	At 31 December 2021 <i>RMB'000</i> (audited)
Trade receivables from contracts with customers	83,314	104,554
Less: Provision for impairment	<u>(11,564)</u>	<u>(10,562)</u>
	71,750	93,992
Bill receivables	<u>3,866</u>	<u>4,518</u>
	<u>75,616</u>	<u>98,510</u>

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

	At 30 June 2022 <i>RMB'000</i> (unaudited)	At 31 December 2021 <i>RMB'000</i> (audited)
Within 30 days	39,111	67,026
31 to 60 days	16,478	11,711
61 to 90 days	2,585	5,767
91 to 180 days	7,533	9,201
Over 180 days	<u>17,607</u>	<u>10,849</u>
	83,314	104,554
Less: Provision for impairment	<u>(11,564)</u>	<u>(10,562)</u>
	<u>71,750</u>	<u>93,992</u>

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 2022 <i>RMB'000</i> (unaudited)	At 31 December 2021 <i>RMB'000</i> (audited)
Within 30 days	79,104	124,967
31 to 60 days	26,779	9,601
61 to 90 days	632	4,377
Over 90 days	<u>7,352</u>	<u>4,657</u>
	<u>113,867</u>	<u>143,602</u>

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 and the Group did not have other plans for material acquisition and disposal.

CAPITAL STRUCTURE

As of 30 June 2022, 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 2022, the Group had approximately 1,600 employees (including both in-house and outsourced employees) (30 June 2021: approximately 1,700 employees) in Mainland China, Hong Kong and Macau. Total remuneration for in-house and outsourced employees for the Reporting Period amounted to approximately RMB51.3 million and RMB48.8 million, respectively (Prior Period: approximately RMB47.6 million and RMB49.8 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; and 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

In relation to the section headed "Going concern basis" in Note 1 to the Condensed Consolidated Interim Financial Information, on 23 August 2022, the Group obtained an email confirmation from the relevant bank notifying the Company that the bank will not take any action to demand for immediate repayment of its revolving loan facility amounting to RMB21,380,000 arising from the non-compliance with a restrictive financial covenant.

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 C.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. All the other Directors consider that the present structure provides the Group with strong and consistent leadership which facilitates the development of the Group’s business strategies and execution of its business plans in the most efficient and effective manner. The Directors believe that it is in the best interest of the Company and its shareholders (the “**Shareholders**”) as a whole that Mr. Lee 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 2022

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 Director, namely Mr. Du Ping; and the INEDs, namely Mr. Cheng Yuk Wo, Mr. Huang Lester Garson and Dr. Lam Lee G.