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 REPORT 2018

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. LEE Ching Yiu *(Chairman)*
Dr. LO Wing Yan William *(Vice-Chairman)*
Ms. ZHONG Mei

NON-EXECUTIVE DIRECTORS

Mr. DU Ping
Ms. DUAN Lanchun

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHENG Yuk Wo
Mr. HUANG Lester Garson
Dr. LAM Lee G.

AUDIT COMMITTEE

Mr. CHENG Yuk Wo *(Chairman)*
Dr. LAM Lee G.
Mr. HUANG Lester Garson

REMUNERATION COMMITTEE

Mr. HUANG Lester Garson *(Chairman)*
Mr. CHENG Yuk Wo
Dr. LO Wing Yan William

NOMINATION COMMITTEE

Dr. LAM Lee G. *(Chairman)*
Mr. CHENG Yuk Wo
Mr. HUANG Lester Garson

JOINT COMPANY SECRETARIES

Ms. WONG Gianne*
Ms. LI Shan Mui

AUTHORIZED REPRESENTATIVES

Dr. LO Wing Yan William
Ms. WONG Gianne*

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

LEGAL ADVISOR

Chiu & Partners

* *Formerly known as Wong Yuk Ki*

REGISTERED OFFICE

Cricket Square
Hutchins Drive PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA (THE "PRC")

Level 9 One Indigo
20 Jiuxianqiao Road
Chaoyang District
Beijing

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

28/F Times Tower
391-407 Jaffe Road
Wan Chai

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

PRINCIPAL BANKERS

Hong Kong
The Bank of East Asia, Limited
Bank of China (Hong Kong) Limited
OCBC Wing Hang Bank Limited

PRC
China Construction Bank
China Minsheng Bank
Industrial and Commercial Bank of China

COMPANY'S WEBSITE

www.kidslandholdings.com

STOCK CODE

2122

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The first half of 2018 was challenging to the Group's business. Despite an increase in the Group's revenue of approximately HK$97.5 million, representing a 11% increase from the six months ended 30 June 2017 ("prior period"), the Group recorded a net loss of approximately HK$60.7 million, as compared to a net profit of approximately HK$41.2 million in prior period, mainly due to (i) the decline in gross profit margin of 5.2% from 48.0% to 42.8% mainly due to the increase in purchase cost and more discounts being offered in promotion campaigns during the period; (ii) increase in selling and distribution expenses mainly due to the increase in staff costs, rental expenses and consignment expenses; (iii) increase in general and administrative expenses for larger scale of operations; and (iv) increase in non-cash share-based payment expenses regarding the share options granted in 2017.

Despite the Group's operating results being considerably affected by the abovementioned matters, the Group had recorded an increase in revenue brought by an increase in the number of retail shops and the rapid growth in sales from LEGO Certified Store ("LCS"). The Group had continued to strengthen its leadership and competitive advantages through improvement in consumer experience and further enhancement of its brand portfolio to ensure that it was delivering an optimal mix of the latest products to its customers in a timely manner. The Group also strived to improve its gross profit margin by introducing more high-quality new brands. On the other hand, the Group continued to exercise stringent cost control measures and enhanced the overall store efficiency in order to improve its cost structure.

EXECUTIVE SUMMARY

Business Developments

Self-Operated Retail Channels

The Group continued to strengthen its retail network in the PRC. The Group's self-operated retail channels comprised (i) retail shops; (ii) consignment counters in department stores and a global toy store chain; and (iii) online stores. During the first half of 2018, the Group continued to strategically expand its retail network into prime locations so as to capture the growth opportunities from its target customers. As at 30 June 2018, the Group sold its products through 252 retail shops and 529 consignment counters, which amounted to 781 retail points. These retail points were located in 78 cities across 14 provinces, autonomous regions and municipalities in the PRC, of which 559 of the Group's retail points were located in Tier 1 and Tier 2 cities, and 219 were in Tier 3 cities. The Group's retail shops and consignment counters in the PRC were mainly located in well-known department stores or major shopping malls in Tier 1, Tier 2 and Tier 3 cities. The Group also had three retail shops (being LCS) in Hong Kong as at 30 June 2018. To capture the e-commerce market, in addition to its retail points, the Group operated 17 online stores on third party-operated online platforms as at 30 June 2018.

Retail shops

The Group's retail shops included both single-brand shops (i.e. those which sell products under brand names, such as LEGO) and multi-brand shops (i.e. those which are operated in its own brands, namely Kidsland and Babyland, and distribute different branded toys and infant products). Kidsland stores housed multiple brands offering toys for children, while Babyland stores offer baby toys and infant products for infants.

The following table sets forth the revenue contribution from each type of the Group's retail shops for the periods indicated:

	Six months ended 30 June	
	2018 HK$' million	2017 HK$' million
Multi-brand retail shops	**249.6**	207.8
Single-brand retail shops		
– LCS	**115.7**	43.4
– Stores of other brands	**11.0**	5.7
Sub-total:	**126.7**	49.1
Total:	**376.3**	256.9

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

	Six months ended 30 June	
	2018	2017
Retail shops		
At the beginning of the period	**245**	217
Addition of new retail shops	**15**	20
Closing of retail shops	**(8)**	(11)
Net increase in the number of retail shops	**7**	9
At the end of the period	**252**	226

During the first half of 2018, the Group opened four more LCS in the PRC to cater to market demand from different districts. For Hong Kong, the Group continued boosting the sales of the LCS opened in 2016 and 2017. These together brought a growth in LCS sales during the first half of 2018. Besides, during the period, the Group strategically expanded its Kidsland retail network into prime locations, occupying most major shopping malls to attract its target customers, resulting in a growth of approximately HK$41.8 million in revenue.

Consignment counters

Most of the Group's consignment counters located at department stores were operated under the brands of Kidsland and Babyland. The Group entered into consignment agreements with department stores and a renowned global toy store chain to open and operate consignment counters.

During the first half of 2018, the Group selectively and strategically opened consignment counters only in well-known department stores. The following table sets forth the changes in the number of consignment counters for the periods indicated:

	Six months ended 30 June	
	2018	2017
Consignment counters		
At the beginning of the period	**535**	524
Addition of new consignment counters	**25**	39
Closing of consignment counters	**(31)**	(31)
Net (decrease) increase in the number of consignment counters	**(6)**	8
At the end of the period	**529**	532

Online stores

To access China's rapidly growing online retail market, the Group launched Kidsland stores and flagship stores of brands such as Silverlit, Aprica, K's Kids, OXO, Siku and Schleich on different third party-operated online platforms, such as Tmall, JD.com, Xiaohongshu (小紅書) and Kaola (網易考拉), for the sale of their products such as construction toys, wooden toys, electronic products, action figures, baby strollers, infant car seats and accessories for infants.

As at 30 June 2018, the Group had established 14 flagship online stores on Tmall and Kidsland stores on JD.com, Xiaohongshu and Kaola.

Wholesale Channels

In addition to self-operated retail channels, the Group continued to expand its distribution network in the wholesale channels, comprising (i) distributors; (ii) hypermarket and supermarket chains; and (iii) online key accounts in the PRC.

Distributors

As at 30 June 2018, the Group had 973 distributors, who operated over 3,000 retail shops in 141 cities across 29 provinces, autonomous regions and municipalities in the PRC. These distributors purchased the Group's products and resold them through their own retail shops or third-party retailers. The Group had strict selection criteria in engaging distributors. Selling products to distributors allows the Group to utilise their distribution capability, reduce the Group's logistics and warehousing costs and improve the Group's working capital position. By carefully utilising distributors' geographical base, locations of their retail points, distribution network, experience in retail and management, management style, business strategies, financial resources, delivery capabilities and warehousing capacities, the Group had built an extensive distribution network across the PRC.

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

	Six months ended 30 June	
	2018	2017
Distributors		
At the beginning of the period	**962**	805
Addition of new distributors	**152**	167
Expiry without renewal of agreements with distributors	**(141)**	(100)
Net increase in the number of distributors	**11**	67
At the end of the period	**973**	872

Hypermarket and supermarket chains

The Group sold its products to some hypermarket and supermarket chains which had presence across the PRC. Generally, hypermarkets and supermarkets were categorised into (i) shopping clubs with membership system, (ii) upscale supermarkets, (iii) community supermarkets; and (iv) convenience stores. The Group selected hypermarket and supermarket chains on the basis of their market position, retail network, logistics capabilities, financial conditions and compatibility with the Group's business strategies. The Group generally expected the hypermarket and supermarket chains to have electronic sales reporting system which allows the Group to access information in their systems, so that the Group could conduct real time reconciliation of sales records. Sale of the Group's products at hypermarket and supermarket chains enabled its products to reach wider groups of end-users and bring positive sales results.

As at 30 June 2018, the Group had wholesale arrangement with 15 hypermarket and supermarket chains in the PRC. As at 30 June 2018, these hypermarket and supermarket chains had 640 retail points in Tier 1, 2 and 3 cities (based on the 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	
	2018	2017
Hypermarket and supermarket chains		
At the beginning of the period	**14**	12
Addition of new hypermarket and supermarket chains	**1**	2
Termination or expiry of agreements with hypermarket and supermarket chains	**–**	(1)
Net increase in the number of hypermarket and supermarket chains	**1**	1
At the end of the period	**15**	13

Online key accounts

Online shopping had become one of the mainstream distribution channels in the PRC. To access this rapidly growing market, the Group sold its products through online platforms operated by its online key accounts, such as JD.com, Amazon, YHD.com and Suning. The Group selected its online key accounts on the basis of their reputation, financial condition and market share. During the first half of 2018, the number of online key accounts slightly decreased.

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

	Six months ended 30 June	
	2018	2017
Online key accounts		
At the beginning of the period	**13**	14
Addition of new online key accounts	**1**	1
Termination or expiry of agreements with online key accounts	**(3)**	–
Net (decrease) increase in the number of online key accounts	**(2)**	1
At the end of the period	**11**	15

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2018, the revenue of the Group increased by 11% from approximately HK$900.3 million for the corresponding period in 2017 to approximately HK$997.9 million. The increase in revenue was mainly due to the increase in the number of retail shops, the rapid growth in the sales from LCS, as well as higher sales recorded for the Group's online key accounts.

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

	Six months ended 30 June	
	2018 **HK$'000**	2017 HK$'000
Self-operated retail channels		
– Retail shops	**376,262**	256,904
– Consignment counters	**333,352**	314,113
– Online stores	**45,913**	41,474
Sub-total:	**755,527**	612,491
Wholesale channels		
– Online/offline wholesale		
Distributors	**182,061**	244,773
Hypermarket and supermarket chains	**24,433**	18,004
Online key accounts	**35,861**	25,075
Sub-total:	**242,355**	287,852
Total:	**997,882**	900,343

For the six months ended 30 June 2018, sales of toy products accounted for 92.0% (six months ended 30 June 2017: 90.6%) of the Group's revenue and sales of infant products accounted for 8.0% (six months ended 30 June 2017: 9.4%) of the Group's revenue.

Same as prior period, for the first half of 2018, the Group's revenue was mainly contributed by self-operated retail channels. During the first half of 2018, revenue of the Group's self-operated retail channels grew by HK$143.0 million. This was mainly due to the increase in the number of the Group's retail shops and the rapid growth in the sales from LCS. The increase in spending power of the residents in Tier 1 and Tier 2 cities, of which the Group's retail points are located, fueled the Group's retail sales growth. Online key accounts also recorded sales growth of approximately HK$10.8 million, representing a 43% increase from prior period.

Self-operated retail channels
For the six months ended 30 June 2018, revenue contributed by self-operated retail channels increased by 23% from approximately HK$612.5 million for the six months period ended 30 June 2017 to approximately HK$755.5 million, which was mainly due to the increase in the number of retail shops and rapid growth in the sales from LCS.

The following table sets forth the Group's comparable retail points sales for the periods indicated:

	Six months ended 30 June	
	2018	2017
Self-operated retail points		
A. Retail shops		
Number of comparable retail shops*	**188**	175
Average revenue per comparable retail shop		
– current period (RMB'000)	**1,080.5**	1,139.4
– prior period (RMB'000)	**1,091.1**	1,040.1
Growth in comparable retail shops sales during comparable periods	**(1.0)%**	9.5%
B. Consignment counters		
Number of comparable consignment counters*	**440**	321
Average revenue per comparable consignment counter		
– current period (RMB'000)	**594.9**	747.0
– prior period (RMB'000)	**599.7**	731.5
Growth in comparable consignment counters sales during comparable periods	**(0.8)%**	2.1%
C. Overall		
Number of comparable retail points*	**628**	496
Average revenue per comparable retail point		
– current period (RMB'000)	**740.3**	885.4
– prior period (RMB'000)	**746.8**	840.4
Growth in comparable retail points sales during comparable periods	**(0.9)%**	5.4%

* Comparable retail points sales refer to revenue generated from the Group's self-operated retail points existing at the end of the relevant financial period, which have been operating continuously for at least 24 months immediately prior to the end of that financial period. For example, the comparable self-operated retail points for 2018 are retail points that were open throughout 1 July 2016 to 30 June 2018. Difference between number of comparable retail points and total number of retail points is attributable to retail points opened or closed or under renovation during the periods under comparison. The Group's calculation of comparable retail points sales information may be different from those adopted by other companies, and the Group's comparable retail points sales information may not be comparable to the comparable retail points sales information reported by other companies.

Comparable retail points sales growth of the Group's retail shops decreased from 9.5% for the six months ended 30 June 2017 to (1.0)% for the six months ended 30 June 2018, and comparable retail points sales growth of the Group's consignment counters decreased from 2.1% for the six months ended 30 June 2017 to (0.8)% for the six months ended 30 June 2018. Such decrease was a result of the slowdown of consumer spending momentum in the PRC during the six months ended 30 June 2018.

Wholesale channels

For the six months ended 30 June 2018, revenue contributed by the wholesale channels decreased by 16% from approximately HK$287.9 million for the six months period ended 30 June 2017 to approximately HK$242.4 million. Same as prior period, a majority of the revenue of wholesale channels was contributed by distributors.

Cost of Goods Sold, Gross Profit and Gross Profit Margin

Cost of goods sold increased by 22% from approximately HK$468.2 million for the six months ended 30 June 2017 to approximately HK$570.9 million for the six months ended 30 June 2018. The increase was mainly due to the increase in sales volume as well as the increase in purchase costs of some of the Group's major products in 2018. Moreover, aggressive pricing strategy was adopted by some of the major brands in the PRC and therefore higher discounts were offered for some of the Group's products, in addition to the clearance sales for Chicco products after the expiry of distribution agreement, gross profit margin of the Group decreased from 48.0% for the six months ended 30 June 2017 to 42.8% for the six months ended 30 June 2018. As a result of the foregoing, gross profit of the Group decreased from approximately HK$432.2 million for the six months ended 30 June 2017 to approximately HK$427.0 million for the six months ended 30 June 2018.

Other Income

Other income increased by approximately HK$2.5 million from approximately HK$10.3 million for the six months ended 30 June 2017 to approximately HK$12.8 million for the six months ended 30 June 2018. Other income mainly consists of promotion income from brand owners and government grants. The increase was mainly attributable to the increase in promotion income from brand owners.

Other Gains and Losses

Other gains and losses decreased by approximately HK$1.5 million from a loss of approximately HK$3.7 million for the six months ended 30 June 2017 to a loss of approximately HK$5.2 million for the six months ended 30 June 2018. Other gains and losses mainly consist of the net exchange loss.

Selling and Distribution Expenses

Selling and distribution expenses increased by 26% from approximately HK$334.5 million for the six months ended 30 June 2017 to approximately HK$420.0 million for the six months ended 30 June 2018, which was mainly attributable to (i) the increase in staff costs due to the increase in number of sales personnel and average salary in the PRC and outsourced personnel service costs incurred since the second half of 2017; (ii) increase in consignment expenses; and (iii) growth in rental expenses for both stores and warehouses as a result of the increase in number of retail shops.

General and Administrative Expenses

For offices, general and administrative expenses increased by 63% from approximately HK$42.9 million for the six months ended 30 June 2017 to approximately HK$69.9 million for the six months ended 30 June 2018. The increase was mainly due to (i) the expansion of the Group's business which led to the increase in staff costs and office rental expenses; and (ii) increase in non-cash share-based payment expenses of approximately HK$15.8 million regarding the share options granted in 2017.

Listing Expenses

Listing expenses represented fees to various professional parties in connection with the listing of shares of the Company (the "Shares") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10 November 2017. No listing expenses was incurred in 2018 (six months ended 30 June 2017: approximately HK$5.8 million).

(Loss) Profit Before Tax

As a result of the foregoing, the profit before tax of the Group decreased by HK$113.1 million from a profit of approximately HK$55.6 million for the six months ended 30 June 2017 to a loss of approximately HK$57.5 million for the six months ended 30 June 2018.

Income Tax

The Group's income tax expense decreased from approximately HK$14.4 million for the six months ended 30 June 2017 to approximately HK$3.1 million for the six months ended 30 June 2018.

(Loss) Profit and EBITDA (Earnings before Interest Income, Income Tax, Depreciation and Amortisation)

Profit of the Group decreased by HK$101.9 million from a profit of approximately HK$41.2 million for the six months ended 30 June 2017 to a loss of approximately HK$60.7 million for the six months ended 30 June 2018. Excluding the non-cash share-based payment expenses of approximately HK$15.8 million, profit for the period decreased by HK$86.1 million.

EBITDA of the Group decreased by HK$107.1 million from a profit of approximately HK$71.6 million for the six months ended 30 June 2017 to a loss of approximately HK$35.5 million for the six months ended 30 June 2018.

Inventory

The inventory turnover days of the Group decreased from 200 days for the six months ended 30 June 2017 to 193 days for the six months ended 30 June 2018. The decrease in inventory turnover days was mainly due to the tighter control of inventory level.

Capital Expenditure

During the six months ended 30 June 2018, the Group invested approximately HK$26.9 million (six months ended 30 June 2017: approximately HK$14.6 million) in property, plant and equipment, primarily attributable to the increase in the number of the Group's retail shops.

Liquidity and Financial Resources

The Group's cash and bank balances as at 30 June 2018 were approximately HK$157.5 million compared to approximately HK$311.7 million as at 31 December 2017. The current ratio and quick ratio as at 30 June 2018 were 2.8 and 1.3, respectively (31 December 2017: 3.0 and 1.5, respectively).

As at 30 June 2018, the Group had aggregate banking facilities of approximately HK$110 million (31 December 2017: approximately HK$90.0 million) for bank loans and trade financing, of which approximately HK$83.3 million (31 December 2017: approximately HK$84.9 million) was unutilised as at the same date. These facilities are secured by corporate guarantees provided by the Company.

Gearing Ratio

The Group was in a net cash position as at 30 June 2018 and hence no gearing ratio is presented (31 December 2017: Nil).

Charge of Assets

As at 30 June 2018, no charges were made on the Group's assets (31 December 2017: Nil).

Contingent Liabilities

As at 30 June 2018, the Group did not have significant contingent liabilities (31 December 2017: Nil).

Foreign Exchange

The Group is exposed to foreign exchange risk arising from exposure in the Euros, Japanese Yen and Chinese Renminbi against the Hong Kong dollar. Although the management of the Company monitors the foreign exchange risks of the Group on a regular basis, fluctuations in the value of the Hong Kong dollar against the other currencies could affect the Group's margins and profitability. The Group currently does not have a formal hedging policy and have not entered into any foreign currency exchange contracts or derivative transactions to hedge the foreign exchange risk.

Significant Investments held, Material Acquisition and Disposal

The Group did not hold any significant investment nor did the Group carry out any material acquisition and disposal of subsidiaries during the period ended 30 June 2018.

Employees and Remuneration Policy

As at 30 June 2018, the Group had approximately 634 employees and 1,681 outsourced employees (30 June 2017: approximately 2,200 employees) located in the PRC and Hong Kong. Total staff costs for the six months ended 30 June 2018 amounted to approximately HK$153.9 million (six months ended 30 June 2017: approximately HK$96.1 million). The Group's remuneration packages are in line with the current legislation in the relevant jurisdictions, the experience and qualifications of individual employees and the general market conditions. Bonuses are linked to the Group's general performance, labour market conditions, as well as individual performances of the employees. The Group ensures that adequate training and professional development opportunities are provided to all employees so as to satisfy their career development needs.

PROSPECTS

The Group considers that economic adjustments in the PRC and the trade war between the US and China will continue to add uncertainty to the retail growth outlook. However, the Group sees an increase in per capita spending power of the Chinese middle class which may fuel the increase in general market demand for toy and infant products. Moreover, the relaxation of the one-child policy is expected to drive market growth for the overall toys and games industry in China.

The Group will continue to optimise its product mix by entering into distribution agreements with more high-quality toy and infant product brands. During the six months ended 30 June 2018, the Group entered into a distribution agreement with FAO Schwarz. The first "FAO Schwarz" flagship store is planned to be opened at the beginning of 2019. The Group believes this will broaden its product offerings and enhance customers' shopping experience by introducing a new type of flagship store to the China market.

The Group considers itself better equipped after difficult times and is well positioned for changes in the industry. The Group is, in particular, looking forward to delivering the latest collections of its new and distinctive toy and infant products, as well as the launch of new concepts, such as experience centres. Besides, the Group will strengthen the recognition of its brands, enhance consumer loyalty and develop skills and strategies in launching the Group's own private labels. The Group will further leverage its competitive strengths and advantages, a well-balanced portfolio of diverse yet complementary toy and infant product brands, and maintain the leading position in the toy retailing industry.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2018, the following persons (other than the Directors and chief executives of the Company) had or deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company:

Long positions

Name of shareholders	Nature of interest	Number of ordinary shares held	Approximate percentage of shareholding
Ms. Tang Hoi Lun	Interest of spouse *(Note 1)*	463,224,523	57.90%
Asian Glory	Held by controlled corporation *(Note 2)*	449,224,523	56.15%
FCPR Cathay Capital II	Held by controlled corporation *(Note 3)*	78,777,637	9.85%
Eurojoy Limited	Beneficial owner	78,777,637	9.85%

1. Ms. Tang Hoi Lun is the spouse of Mr. Lee Ching Yiu. By virtue of the SFO, Ms. Tang Hoi Lun is deemed to be interested in the Shares of the Company which Mr. Lee Ching Yiu is interested in.

2. Asian Glory owns approximately 74.87% of Lovable International Holdings Limited. By virtue of the SFO, Asian Glory is deemed to be interested in the Shares of the Company it holds directly and the Shares of the Company held by Lovable International Holdings Limited.

3. FCPR Cathay Capital II is the sole shareholder of Eurojoy Limited. By virtue of the SFO, FCPR Cathay Capital II is deemed to be interested in the Shares of the Company which Eurojoy Limited holds.

Save as disclosed hereinabove and in the "Directors' interests and short positions in shares, underlying shares and debentures" section below, the Company has not been notified by any person who had interest or short position in the shares or underlying shares of the Company as at 30 June 2018 which were required to be notified to the Company pursuant to Part XV of the SFO or which are recorded in the register required to be kept by the Company under section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2018.

CORPORATE GOVERNANCE PRACTICES

The board (the "Board") of directors (the "Directors") of the Company is committed to follow best practices in corporate governance in order to enhance the shareholders' value by ensuring standards in integrity, transparency and quality of disclosure. As a newly listed company, the Company has emphasized on a quality board, sound internal controls, transparency and accountability to all shareholders as its corporate governance principles. The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules as its own code of corporate governance. Since 10 November 2017 (the "Listing Date") and up to 30 June 2018, except for the stated matter below, the Company was in compliance with all relevant code provisions set out in the CG Code.

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 as a whole that Mr. Lee Ching Yiu continues to assume the roles of the Chairman and the CEO.

MODEL CODE SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules ("Model Code") as its own code of conduct regarding Directors' securities transactions. Having made specific enquiry of the Directors of the Company, all Directors confirmed that they have complied with the required standards set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions, and no incident of non-compliance with the Model Code by the Directors was noted by the Company during the six months ended 30 June 2018.

BOARD COMMITTEES

Three Board Committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, are established for the roles of overseeing particular aspects of the Group under defined terms of reference. The terms of reference of the Board Committees are available on the Company's website and the Stock Exchange's website. A list of the Chairman and members of each Board Committee is set out under "Corporate Information" on page 2 of this interim report.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, namely Mr. Cheng Yuk Wo (as committee chairman), Mr. Huang Lester Garson and Dr. Lam Lee G, who possess appropriate professional qualification and experience in financial matters.

The terms of reference of the Audit Committee adopted by the Board are aligned with the code provisions set out in the CG Code, and are currently made available on the websites of the Stock Exchange and the Company.

The Audit Committee is mainly responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor; reviewing, in draft form, the interim and annual reports and accounts of the Group and significant financial reporting judgements contained therein; and overseeing the Company's financial reporting system, and the risk management and internal control systems. The Audit Committee has reviewed the Group's unaudited condensed consolidated interim financial information for the six months ended 30 June 2018. Based on this review and discussions with the management, the Audit Committee was satisfied that the financial information was prepared in accordance with applicable accounting standards and fairly presented the Group's financial position and results for the six months ended 30 June 2018.

CHANGES IN INFORMATION OF DIRECTORS

In accordance with Rule 13.51B(1) of the Listing Rules, the changes in information of Directors required to be disclosed pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules during the period under review and up to the date of this report are set out below:

Mr. Lam Lee G., an independent non-executive Director of the Company, was appointed as an independent non-executive director of China Medical (International) Group Limited, a company listed on the Singapore Exchange Securities Trading Limited, on 14 May 2018, and of Hsin Chong Group Holdings Limited (HKEX stock code: 404) on 17 May 2018.

NOMINATION COMMITTEE

The Nomination Committee comprises three independent non-executive Directors, namely Dr. Lam Lee G. (as committee chairman), Mr. Huang Lester Garson and Mr. Cheng Yuk Wo.

The terms of reference of the Nomination Committee adopted by the Board are aligned with the code provisions set out in the CG Code, and are currently made available on the websites of the Stock Exchange and the Company.

The Nomination Committee is mainly responsible for reviewing the Board composition, structure, size and diversity of the Board, assessing the independence of the independent non-executive Directors and making recommendations to the Board on the nomination, appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the CEO.

REMUNERATION COMMITTEE

The Remuneration Committee consists of two independent non-executive Directors, namely Mr. Huang Lester Garson (as committee chairman) and Mr. Cheng Yuk Wo and an executive Director, Dr. Lo Wing Yan William.

The terms of reference of the Remuneration Committee adopted by the Board are aligned with the code provisions set out in the CG Code, and are currently made available on the websites of the Stock Exchange and the Company.

The Remuneration Committee is mainly responsible for making recommendations to the Board on the Company's policy and structure on the remuneration packages for all Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy.

The Remuneration Committee has adopted the approach under code provision B.1.2(c)(ii) of the CG Code to make recommendations to the Board on remuneration packages of the Directors and the senior management.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2018, the interests and short positions of the Directors and their associates in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO")) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept by the Company, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange are as follows:

Name of Directors	Nature of interest	Number of ordinary shares held	Approximate percentage of shareholding
Mr. Lee Ching Yiu	Beneficial owner *(Note 1)*	4,000,000	0.50%
	Held by controlled corporation; beneficial owner *(Note 2)*	459,224,523	57.40%
Dr. Lo Wing Yan William	Beneficial owner *(Note 1)*	4,000,000	0.50%
	Held by controlled corporation *(Note 3)*	23,999,280	3.00%
Ms. Zhong Mei	Beneficial owner *(Note 1)*	4,000,000	0.50%
	Held by controlled corporation *(Note 4)*	29,999,100	3.75%
Mr. Du Ping	Beneficial owner *(Note 1)*	1,500,000	0.19%
	Held by controlled corporation *(Note 5)*	2,999,910	0.37%

(1) These represent the maximum number of Shares which may be allotted and issued to such Directors upon the exercise of the pre-IPO share options granted to each of them under the pre-IPO share option scheme approved and adopted by the then shareholders on 20 October 2017 (the "Pre-IPO Share Option Scheme"). Details of the Pre-IPO Share Option Scheme are set out under the section headed "Share Option Schemes" below.

(2) Mr. Lee Ching Yiu is the sole shareholder of Asian Glory Holdings Ltd. ("Asian Glory"). By virtue of the SFO, Mr. Lee Ching Yiu is deemed to be interested in the Shares of the Company which Asian Glory owns approximately 74.87% of Lovable International Holdings Limited. By virtue of the SFO, Asian Glory is deemed to be interested in the Shares of the Company it holds directly and the Shares held by Lovable International Holdings Limited. Further, Mr. Lee Ching Yiu is the beneficial owner of 10,000,000 Shares.

(3) Dr. Lo Wing Yan William is the sole shareholder of Constant New Limited. By virtue of the SFO, Dr. Lo Wing Yan William is deemed to be interested in the Shares of the Company directly held by Constant New Limited.

(4) Ms. Zhong Mei is the sole shareholder of Stars Link Ventures Limited. By virtue of the SFO, Ms. Zhong Mei is deemed to be interested in the Shares of the Company directly held by Stars Links Venture Limited.

(5) Mr. Du Ping is the sole shareholder of Merits Forest Global Limited. By virtue of the SFO, Mr. Du Ping is deemed to be interested in the Shares of the Company directly held by Merits Forest Global Limited.

Save as disclosed above, as at 30 June 2018, none of the Directors or chief executive of the Company had or was deemed to have any interests and/or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code set out in the Listing Rules.

Apart from the share option schemes disclosed below, at no time during the period under review was the Company or its subsidiaries a party to any arrangement that enabled the Directors of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SHARE OPTION SCHEMES

Post-IPO Share Option Scheme

On 20 October 2017, a post-IPO share option scheme (the "Post-IPO Share Option Scheme") was adopted by a resolution in writing by the then shareholders of the Company to incentivise or reward eligible participants (including (i) any full-time or part – time employees, executives or officers of the Company or any of its subsidiaries; (ii) any Directors (including independent non – executive Directors) of the Company or any of its subsidiaries; and (iii) any advisors, consultants, suppliers, customers, distributors and such other persons (collectively, the "Post-IPO Eligible Participants") who in the sole opinion of the Board will contribute or have contributed to the Company or any of its subsidiaries for their contribution to the Group, for the purpose of motivating them to optimise their performance efficiency for the benefit of the Group, and attracting and retaining these Post-IPO Eligible Participants whose contributions are or will be beneficial to the long-term growth of our Group.

The options granted pursuant to the Post-IPO Share Option Scheme will expire no later than 10 years from the date of grant of the option. As at the date of this interim report, no options have been granted or agreed to be granted pursuant to the Post IPO Share Option Scheme. The Post-IPO Share Option Scheme remains in force for 10 years from the date of adoption.

For any options granted to Directors, chief executives or substantial shareholders of the Company, or any of their respective associate, options to be granted to any of these persons shall be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of options). Where any option granted to a substantial shareholder or an independent non-executive Director, or any of their respective associates, would result in the Shares issued or to be issued upon exercise of all options already granted and to be granted to such person in the 12-month period, (i) representing in aggregate over 0.1% of the Shares in issue on the date of such grant; and (ii) having an aggregate value, based on the closing price of the Shares, in excess of HK$5 million, such grant of options shall be subject to prior approval by resolutions of the shareholders (voting by way of poll) at which all connected persons (as defined in the Listing Rules) of the Company shall abstain from voting in favour, and/or such other requirements prescribed under the Listing Rules from time to time.

The number of Shares issued and to be issued in respect of options granted and may be granted to any individual in any 12-month period is not permitted to exceed 1% of the total Shares of the Company in issue, without prior approval from the shareholders of the Company and with such participants and his associates abstaining from voting.

The amount payable on acceptance of an option is HK$1.00, which will be payable on or before a prescribed acceptance date. In relation to any options granted under the Post-IPO Share Option Scheme, the exercise price is determined by the Directors, and will not be less than the higher of (i) the closing price of the Company's Shares on the date of grant; (ii) the average closing price of the Shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share.

The Post-IPO Share Option Scheme does not contain any minimum period for which an option must be held before it can be exercised. However, at the time of granting of the options, the Board may specify any such minimum period.

Unless otherwise terminated by the Board or the shareholders in general meeting in accordance with the terms of the Post-IPO Share Option Scheme, the Post-IPO Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption which was 20 October 2017, after which no further options will be granted or offered but the provisions of the Post-IPO Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting options granted prior to the expiry of the 10-year period or otherwise as may be require.

The total number of the Shares which may be allotted and issued upon the exercise of all options to be granted under the Post-IPO Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue as at the Listing Date unless shareholders' approval has been obtained.

No share option was granted, exercised, cancelled or lapsed under the Post-IPO Share Option Scheme since its adoption and up to 30 June 2018. No share option was outstanding under the Post-IPO Share Option Scheme as at 30 June 2018.

Pre-IPO Share Option Scheme

On 20 October 2017, the Pre-IPO Share Option Scheme was adopted by a resolution in writing passed by the then shareholders of the Company to incentivise or reward eligible full-time, key employees, consultants or Directors of the Company or any of its subsidiaries (the "Pre-IPO Eligible Participants") for their contribution to the Group for the purpose of motivate the Pre-IPO Eligible Participants to optimise their performance efficiency for the benefit of the Group, and attract and retain or otherwise maintain an on-going business relationship with the Pre-IPO Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group. 47,500,000 share options were granted to Pre-IPO Eligible Participants, including directors and employees, on 25 October 2017 at an exercise price of HK$0.8 per share pursuant to the Pre-IPO Share Option Scheme.

Movements of the share options granted under the Pre-IPO Share Option Scheme during the six months ended 30 June 2018 were as follows:

	Outstanding as at 31 December 2017	Exercised during the period	Lapsed or cancelled during the period	Outstanding as at 30 June 2018
Directors				
Mr. Lee Ching Yiu	4,000,000	–	–	4,000,000
Dr. Lo Wing Yan William	4,000,000	–	–	4,000,000
Ms. Zhong Mei	4,000,000	–	–	4,000,000
Mr. Du Ping	1,500,000	–	–	1,500,000
Employees	34,000,000	–	–	34,000,000
Total	47,500,000	–	–	47,500,000

Significant estimates and assumptions are required to be made in determining the parameters for applying binomial tree model, including estimates and assumptions regarding the risk-free rate of return, expected dividend yield and volatility of the underlying Shares and the expected life of the options. These estimates and assumptions could have a material effect on the determination of the fair value of the share options and the amount of such equity awards expected to vest, which may in turn significantly impact the determination of the share-based payments. The following assumptions were used to derive the fair values of options granted in 2017:

	2017
Weighted average share price	HK$1.15
Exercise price	HK$0.80
Expected volatility	45.96%
Time-to-maturity	24 October 2027
Risk-free rate	1.88%
Expected dividend yield	0.00%

Except for the options which have been granted under the Pre-IPO Share Option Scheme, no share options have been granted, exercised, cancelled or lapsed under the Pre-IPO Share Option Scheme since its adoption and up to 30 June 2018.

Subject to the following vesting dates, any options granted under the Pre-IPO Share Option Scheme may be exercisable at any time commencing on the first date of the exercisable period and prior to the expiry of 10 years from that grant date:

	Grant date	Exercisable period
Directors		
Mr. Lee Ching Yiu	25 October 2017	(i) 1,600,000 share options: From 25 October 2018 to 24 October 2027 (ii) 1,200,000 share options: From 25 October 2019 to 24 October 2027 (iii) 1,200,000 share options: From 25 October 2020 to 24 October 2027
Dr. Lo Wing Yan William	25 October 2017	(i) 1,600,000 share options: From 25 October 2018 to 24 October 2027 (ii) 1,200,000 share options: From 25 October 2019 to 24 October 2027 (iii) 1,200,000 share options: From 25 October 2020 to 24 October 2027
Ms. Zhong Mei	25 October 2017	(i) 1,600,000 share options: From 25 October 2018 to 24 October 2027 (ii) 1,200,000 share options: From 25 October 2019 to 24 October 2027 (iii) 1,200,000 share options: From 25 October 2020 to 24 October 2027
Mr. Du Ping	25 October 2017	(i) 600,000 share options: From 25 October 2018 to 24 October 2027 (ii) 450,000 share options: From 25 October 2019 to 24 October 2027 (iii) 450,000 share options: From 25 October 2020 to 24 October 2027
Employees	25 October 2017	(i) 13,600,000 share options: From 25 October 2018 to 24 October 2027 (ii) 10,200,000 share options: From 25 October 2019 to 24 October 2027 (iii) 10,200,000 share options: From 25 October 2020 to 24 October 2027

Upon terminated by the Board or the shareholders in general meeting in accordance with the terms of the Pre-IPO Share Option Scheme, no further options will be offered but the terms of the Pre-IPO Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting options granted prior thereto or otherwise as may be required in accordance with the terms of the Pre-IPO Share Option Scheme.

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

On 10 November 2017, the Company issued 200,000,000 new ordinary Shares of nominal value of HK$0.01 each in connection with the listing of its Shares on the Stock Exchange (the “IPO”). The net proceeds after deducting the underwriting commission and other expenses arising from the IPO were approximately HK$288.3 million.

As stated in the Company’s prospectus dated 31 October 2017 (the “Prospectus”), the Company intended to use the proceeds to (i) expand the Group’s retail network in the PRC and Hong Kong; (ii) strengthen the Group’s capabilities in product development under the Group’s existing or new brands; (iii) develop experience centres and associated products; and (iv) working capital and other general corporate purposes.

An analysis of the utilisation of the net proceeds from the Listing Date up to 30 June 2018 is set out below:

	Use of proceeds as stated in the Prospectus HK$ million	Actual use of proceeds from the Listing Date to 30 June 2018 HK$ million
Expand the Group's retail network in the PRC and Hong Kong		
– Open flagship toy stores in the PRC	60.5	32.4
– Open Kidsland and Babyland stores in the PRC	46.1	26.2
– Open LEGO Certified Stores in the PRC and Hong Kong	34.6	18.5
– Upgrade the information technology system, develop our online business and upgrade store image, visual display and other marketing expenses at the retail points	34.6	19.4
Strengthen the Group's capabilities in product development under the Group's existing or new brands	51.9	27.8
Develop experience centres and associated products	31.7	17.0
Working capital and other general corporate purposes	28.9	15.4
	288.3	156.7

The remaining balance of such net proceeds was kept in banks and approved financial institutions in Hong Kong.

Interim Dividends

The Board has resolved not to recommend any interim dividend in respect of the six months ended 30 June 2018.

Kidsland International Holdings Limited
Mr. Lee Ching Yiu
Chairman
27 August 2018

Deloitte. **德勤**

TO THE BOARD OF DIRECTORS OF KIDSLAND INTERNATIONAL HOLDINGS LIMITED
凱知樂國際控股有限公司
(incorporated in the Cayman Islands with limited liability)

We have reviewed the condensed consolidated financial statements of Kidsland International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 21 to 48, which comprise the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements 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.

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 the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Without qualifying our review conclusion, we draw attention to the fact that the comparative condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period ended 30 June 2017 and the relevant explanatory notes included in the condensed consolidated financial statements have not been reviewed in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 August 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Six Months Ended 30 June 2018

	Notes	Six months ended 30 June 2018 HK$'000 (unaudited)	2017 HK$'000 (unaudited)
Revenue	4	**997,882**	900,343
Cost of goods sold		**(570,920)**	(468,182)
Gross profit		**426,962**	432,161
Other income	5	**12,789**	10,308
Other gains and losses	6	**(5,222)**	(3,652)
Impairment loss, net of reversal		**(2,130)**	–
Selling and distribution expenses		**(420,038)**	(334,527)
General and administrative expenses		**(69,907)**	(42,851)
Listing expenses		**–**	(5,814)
(Loss) profit before tax		**(57,546)**	55,625
Income tax expense	7	**(3,114)**	(14,403)
(Loss) profit for the period	8	**(60,660)**	41,222
Other comprehensive (expense) income			
Item that will not be reclassified subsequently to profit or loss			
Exchange differences arising from translation of functional currency to presentation currency		**(23,364)**	(18,887)
Item that may be reclassified subsequently to profit or loss			
Exchange differences on translation of financial statements of foreign operations		**9,943**	2,872
Other comprehensive expense for the period, net of income tax		**(13,421)**	(16,015)
Total comprehensive (expense) income for the period		**(74,081)**	25,207
(Loss) profit for the period attributable to:			
Owners of the Company		**(64,216)**	38,737
Non-controlling interest		**3,556**	2,485
		(60,660)	41,222
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		**(77,294)**	23,437
Non-controlling interest		**3,213**	1,770
		(74,081)	25,207
Basic (loss) earnings per share	10	**(HK8.03 cents)**	HK6.46 cents
Diluted (loss) earnings per share	10	**(HK8.03 cents)**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Notes	At 30 June 2018 HK$'000 (unaudited)	At 31 December 2017 HK$'000 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	*11*	**63,456**	59,274
Financial asset at fair value through profit or loss ("FVTPL")	*12*	**18,656**	–
Deposit paid for acquisition of intangible assets	*13*	**11,612**	–
Deposit paid for acquisition of property, plant and equipment		**1,244**	–
Rental deposits		**28,752**	24,919
Deferred tax assets		**12,758**	9,767
		136,478	93,960
Current assets			
Inventories		**598,056**	617,690
Trade receivables	*14*	**216,732**	191,584
Other receivables, deposits and prepayments	*14*	**133,518**	124,070
Bank balances and cash		**157,454**	311,672
		1,105,760	1,245,016
LIABILITIES			
Current liabilities			
Trade payables	*15*	**250,855**	303,115
Other payables and accruals	*15*	**86,313**	101,121
Contract liabilities	*16*	**46,054**	–
Refund liabilities		**1,302**	–
Amounts due to related parties		**904**	38
Current tax liabilities		**7,417**	7,237
		392,845	411,511
Non-current liability			
Provision for reinstatement costs		**12,030**	12,070
Net current assets		**712,915**	833,505
Total assets less current liabilities		**849,393**	927,465
Net assets		**837,363**	915,395

	Notes	At 30 June 2018 HK$'000 (unaudited)	At 31 December 2017 HK$'000 (audited)
EQUITY			
Owners of the Company			
Share capital	*17*	**8,000**	8,000
Reserves		**813,099**	894,344
		821,099	902,344
Non-controlling interest		**16,264**	13,051
Total equity		**837,363**	915,395

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months Ended 30 June 2018

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000 *(Note a)*	Statutory reserve HK$'000 *(Note b)*	Capital reserve HK$'000 *(Note c)*	Translation reserve HK$'000	Share option reserve HK$'000	Retained earnings HK$'000	Sub-total HK$'000	Non-controlling interest HK$'000	Total HK$'000
At 1 January 2017 (audited)	–	–	–	3,351	–	(45,729)	–	397,934	355,556	6,885	362,441
Profit for the period	–	–	–	–	–	–	–	38,737	38,737	2,485	41,222
Other comprehensive expense for the period	–	–	–	–	–	(15,300)	–	–	(15,300)	(715)	(16,015)
Total comprehensive (expense) income for the period	–	–	–	–	–	(15,300)	–	38,737	23,437	1,770	25,207
Issue of shares *(note 17)*	1	–	–	–	–	–	–	–	1	–	1
Effect of reorganisation	–	137,336	(137,336)	–	–	–	–	–	–	–	–
Deemed contribution from a shareholder	–	–	–	–	88,471	–	–	–	88,471	–	88,471
Dividend paid *(note 9)*	–	(50,000)	–	–	–	–	–	–	(50,000)	–	(50,000)
At 30 June 2017 (unaudited)	1	87,336	(137,336)	3,351	88,471	(61,029)	–	436,671	417,465	8,655	426,120
At 31 December 2017 (audited)	8,000	373,924	(137,336)	5,073	205,725	(12,309)	3,703	455,564	902,344	13,051	915,395
Adjustments *(note 2.3)*	–	–	–	–	–	–	–	(1,916)	(1,916)	–	(1,916)
At 1 January 2018 (restated)	**8,000**	**373,924**	**(137,336)**	**5,073**	**205,725**	**(12,309)**	**3,703**	**453,648**	**900,428**	**13,051**	**913,479**
(Loss) profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(64,216)**	**(64,216)**	**3,556**	**(60,660)**
Other comprehensive expense for the period	**–**	**–**	**–**	**–**	**–**	**(13,078)**	**–**	**–**	**(13,078)**	**(343)**	**(13,421)**
Total comprehensive (expense) income for the period	**–**	**–**	**–**	**–**	**–**	**(13,078)**	**–**	**(64,216)**	**(77,294)**	**3,213**	**(74,081)**
Recognition of share-based payment expense *(note 18)*	**–**	**–**	**–**	**–**	**–**	**–**	**15,805**	**–**	**15,805**	**–**	**15,805**
Dividend paid *(note 9)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(17,840)**	**(17,840)**	**–**	**(17,840)**
At 30 June 2018 (unaudited)	**8,000**	**373,924**	**(137,336)**	**5,073**	**205,725**	**(25,387)**	**19,508**	**371,592**	**821,099**	**16,264**	**837,363**

Notes:

(a) The merger reserve represents the difference between the total equity of Kidsland Holdings Limited ("Kidsland Holdings") and Silverkids Inc. ("Silverkids") attributable to Lovable International Holdings Limited ("Lovable International Holdings") and the aggregate share capital of Kidsland Holdings and Silverkids transferred to the Company pursuant to a group reorganisation (the "Reorganisation") by issue of new shares of the Company to Lovable International Holdings in May 2017.

(b) As stipulated by the relevant laws in the People's Republic of China (the "PRC"), the PRC subsidiaries are required to maintain a statutory reserve fund. The minimum transfer to statutory reserve is 10% of profit after tax of the PRC subsidiaries according to the PRC subsidiaries' statutory financial statements. No appropriation is required if the balance of the statutory reserve has reached 50% of the registered capital of the relevant PRC subsidiaries. The statutory reserve can be used to make up losses or for conversion into capital.

(c) The capital reserve represents the waiver of amounts due to companies controlled by Mr. Lee Ching Yiu ("Mr Lee"), a director of the Company and the Company's ultimate controlling party, which was accounted for as deemed contribution from a shareholder.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the Six Months Ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
NET CASH USED IN OPERATING ACTIVITIES	**(80,833)**	(34,072)
NET CASH USED IN INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(25,311)**	(13,478)
Purchase of financial asset at FVTPL	**(18,795)**	–
Deposit paid for acquisition of intangible assets	**(11,612)**	–
Deposit paid for acquisition of property, plant and equipment	**(1,244)**	–
Interest received	**141**	261
Repayment from a related party	**–**	101
	(56,821)	(13,116)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		
Dividend paid	**(17,840)**	–
Advances from related parties	**866**	34,768
Proceeds on issue of shares	**–**	1
Repayments to related parties	**–**	(2,164)
	(16,974)	32,605
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(154,628)**	(14,583)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**311,672**	173,365
Effect of foreign exchange rate changes	**410**	4,286
CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by bank balances and cash	**157,454**	163,068

1. BASIS OF PREPARATION

The condensed consolidated financial statements have 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 "Stock Exchange").

Prior to the Reorganisation, Kidsland Holdings and Silverkids, holding companies of the companies now comprising the Group, were controlled by Lovable International Holdings. Kidsland Holdings and Silverkids were owned by Lovable International Holdings as to 100% and 58%, respectively.

In the preparation for the listing of the Company's shares on the Mainboard of the Stock Exchange (the "Listing"), the companies now comprising the Group underwent the Reorganisation. On 29 May 2017, the Reorganisation was executed to the extent that the Company had been interspersed between Lovable International Holdings, Kidsland Holdings and Silverkids. The Group, comprising the Company, Kidsland Holdings and Silverkids, resulting from the Reorganisation had always been under the common control of Lovable International Holdings throughout the prior period. Therefore, the Reorganisation is considered as a business combination under common control and accounted for under merger accounting.

The condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months ended 30 June 2017 have been prepared as if the Company had always been the holding company of the Group and the current group structure had been in existence throughout the six months ended 30 June 2017, or since the respective date of establishment/incorporation of the relevant entity where this is a shorter period.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for the financial asset at FVTPL which is measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2.1 Impacts and changes in accounting policies on application of HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15")

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources:

- Retail of toy and infant products through self-operated retail network comprising stand-alone retail shops, consignment counters in department stores and online stores; and

- Wholesale of toy and infant products to distributors, hypermarket and supermarket chains and online key accounts.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of new and amendments to HKFRSs (Continued)

2.1 *Impacts and changes in accounting policies on application of HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15")* (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

The Group recognises revenue from sales of toy and infant products at a point in time when the customer obtains control of the distinct goods upon delivery of goods to customers.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due. A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of new and amendments to HKFRSs (Continued)

2.1 *Impacts and changes in accounting policies on application of HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15")* (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (Continued)

Variable consideration

For contracts that contain variable consideration, such as progressive volume discounts offered to customers, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

The estimated amounts of variable considerations, which are calculated using the most likely amount, are deducted from the total transaction price for each contract.

Refund liabilities

The Group recognises a refund liability if the Group expects to refund some or all of the consideration received from customers.

A refund liability is recognised when the Group receives consideration from a customer and expects to refund some or all of that consideration. They represent the amount of consideration received that the Group does not expect to be entitled. The refund liability is updated at each reporting date to reflect changes in the estimate.

Sale with a right of return

For a sale of products with a right of return, the Group recognises all of the following:

- revenue for the transferred products in the amount of consideration to which the Group expects to be entitled (therefore, revenue would not be recognised for the products expected to be returned);
- a refund liability; and
- an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers on settling the refund liability.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group considers it is a principal for its revenue generating activities because it controls the specified good or service before that good or service is transferred to a customer.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of new and amendments to HKFRSs (Continued)

2.1 *Impacts and changes in accounting policies on application of HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15")* (Continued)

2.1.2 Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017 HK$'000	Reclassification HK$'000 *(note a)*	**Carrying amounts under HKFRS 15 at 1 January 2018 HK$'000**
Other payables and accruals	101,121	(22,741)	**78,380**
Contract liabilities	–	22,741	**22,741**

Note:

(a) As at 1 January 2018, deposits received from customers of HK$22,741,000 previously included in other payables and accruals was reclassified to contract liabilities since the underlying products are yet to be delivered.

The following table summarises the impacts of applying HKFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018. Line items that were not affected by the changes have not been included.

	As reported HK$'000	**Adjustments HK$'000** *(notes a and b)*	**HKFRS 15 Amounts without application of HK$'000**
Other payables and accruals	86,313	47,356	133,669
Contract liabilities	46,054	(46,054)	–
Refund liabilities	1,302	(1,302)	–

Notes:

(a) Certain distributors have right to return for a product in exchange during a specified period. Without the application of HKFRS 15, an amount of HK$1,302,000, being the consideration of the transferred goods that Group expects to be returned, would been reclassified from refund liabilities to other payables and accruals.

(b) Without the application of HKFRS 15, deposits received from customers of HK$46,054,000 would been reclassified from contract liabilities to other payables and accruals since the underlying products are yet to be delivered.

There is no material impact on the application of HKFRS 15 on the condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2018.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of new and amendments to HKFRSs (Continued)

2.2 *Impacts and changes in accounting policies on application of HKFRS 9 Financial Instruments ("HKFRS 9")*

In the current period, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income ("FVTOCI") or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, other receivables and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of new and amendments to HKFRSs (Continued)

2.2 Impacts and changes in accounting policies on application of HKFRS 9 Financial Instruments ("HKFRS 9")(Continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Impairment under ECL model (Continued)

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of new and amendments to HKFRSs (Continued)

2.2 Impacts and changes in accounting policies on application of HKFRS 9 Financial Instruments ("HKFRS 9")(Continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Significant increase in credit risk (Continued)

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in note 2.2.2.

2.2.2 Summary of effects arising from initial application of HKFRS 9

Impairment under expected credit loss model

The Group has applied HKFRS 9 simplified approach to measure expected credit loss using a lifetime expected credit loss for trade receivables. To measure the expected credit loss, trade receivables have been grouped based on shared credit risk characteristics.

Loss allowance for other financial assets at amortised cost, mainly comprising deposits and other receivables and bank balances, are measured on 12-month expected credit loss basis and there had been no significant increase in credit risk since initial recognition.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of new and amendments to HKFRSs (Continued)

2.2 *Impacts and changes in accounting policies on application of HKFRS 9 Financial Instruments ("HKFRS 9")*(Continued)

2.2.2 Summary of effects arising from initial application of HKFRS 9 (Continued)

Impairment under expected credit loss model (Continued)

As at 1 January 2018, additional credit loss allowance of HK$2,554,000 has been recognised against retained earnings. The additional loss allowance is charged against the trade receivables.

	Allowance for doubtful debts, net HK$'000
Reconciliation:	
At 31 December 2017 (audited)	
– HKAS 39	(2,457)
Amounts remeasured through opening retained earnings	(2,554)
At 1 January 2018 (unaudited)	(5,011)

Except as described above, the application of amendments to HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

2.3 *Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards*

As a result of the changes in the Group's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each individual affected line item.

	31 December 2017 (Audited) HK$'000	HKFRS 15 HK$'000	HKFRS 9 HK$'000	**1 January 2018 (Restated) HK$'000**
Deferred tax assets	9,767	–	638	**10,405**
Trade receivables	191,584	–	(2,554)	**189,030**
Other payables and accruals	101,121	(22,741)	–	**78,380**
Contract liabilities	–	22,741	–	**22,741**
Reserves	894,344	–	(1,916)	**892,428**

3. KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Other than those disclosed in the annual financial statements for the year ended 31 December 2017, the key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the amounts recognised in the condensed consolidated financial statements are discussed below.

Estimated supplier rebates

The Group is entitled to supplier rebates which were recognised on an accrual basis based on the expected entitlement earned up to the reporting date pursuant to each relevant supplier contract. The management of the Group has based on its best estimate of both expected entitlement earned up and the probability of receipt. When the expected entitlement earned up and the probability of receipt are higher or lower than expected and where events or changes in circumstances indicate that the amount of accrued supplier rebates may not be adequate or may be excessive, such difference will impact the supplier rebates receivable in the years/periods in which such estimate has been changed. The carrying amount as at 30 June 2018 of supplier rebates was HK$33,299,000 (31 December 2017: HK$39,913,000).

Refund liabilities

The Group recognises a refund liability if the Group expects to refund some or all of the consideration received from customers. The management of the Group has based on its best estimate of the amount and probability of the return of sold products. When the amount and probability of return are higher or lower than expected and where events or changes in circumstances indicate that the amount of refund liability may not be adequate or may be excessive, such difference will impact the refund liability in the year/period in which such estimate has been changed. The carrying amount as at 30 June 2018 of refund liabilities was HK$1,302,000 (31 December 2017: Nil).

4. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in trading and sales of toy and infant products.

The Group determines its operating segments based on the reports reviewed by the executive directors of the Company, the chief operating decision maker (the "CODM"), that are used to make strategic decisions. The Group's operating segments are classified as (i) sales of toy products; and (ii) sales of infant products, which are based on the nature of the operations carried out by the Group. No operating segments have been aggregated in arriving at the reporting segments of the Group.

4. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenues and results

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

Six months ended 30 June 2018

	Sales of toy products HK$'000 (unaudited)	Sales of infant products HK$'000 (unaudited)	Total HK$'000 (unaudited)
Revenue	**918,083**	**79,799**	**997,882**
Segment gross profit	**390,645**	**36,317**	**426,962**
Segment profit	**378,921**	**37,989**	**416,910**
Unallocated income			**5,903**
Unallocated expenses			**(473,007)**
Unallocated impairment loss, net of reversal			**(2,130)**
Unallocated other gains and losses			**(5,222)**
Loss before tax			**(57,546)**

Six months ended 30 June 2017

	Sales of toy products HK$'000 (unaudited)	Sales of infant products HK$'000 (unaudited)	Total HK$'000 (unaudited)
Revenue	815,749	84,594	900,343
Segment gross profit	381,637	50,524	432,161
Segment profit	378,635	50,524	429,159
Unallocated income			4,931
Unallocated expenses			(374,813)
Unallocated other gains and losses			(3,652)
Profit before tax			55,625

4. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit represents the (loss) profit before tax (incurred) earned by each segment without allocation of other gains and losses, impairment loss, net of reversal, interest income, government grants, sundry income and other unallocated expenses including certain selling and distribution expenses, general and administrative expenses and listing expenses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Sales and distribution channels

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

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

	Six months ended 30 June	
	2018 HK$'000 (unaudited)	2017 HK$'000 (unaudited)
Self-operated retail channels		
– Retail shops	**376,262**	256,904
– Consignment counters	**333,352**	314,113
– Online stores	**45,913**	41,474
Wholesale channels		
– Online/offline wholesale		
• distributors	**182,061**	244,773
• hypermarket and supermarket chains	**24,433**	18,004
• online key accounts	**35,861**	25,075
	997,882	900,343

Geographical information

The following table provides an analysis of the Group's revenue by geographical location of customers, irrespective of the origin of the goods.

	Six months ended 30 June	
	2018 HK$'000 (unaudited)	2017 HK$'000 (unaudited)
PRC	**926,196**	873,970
Hong Kong	**71,686**	26,373
	997,882	900,343

5. OTHER INCOME

	Six months ended 30 June	
	2018 HK$'000 (unaudited)	2017 HK$'000 (unaudited)
Interest income	**141**	261
Promotion income from brand owners	**6,886**	5,377
Government grants *(note)*	**4,798**	4,527
Sundry income	**964**	143
	12,789	10,308

Note: The Group received government grants for its business development, which is unconditionally provided by the PRC local government.

6. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2018 HK$'000 (unaudited)	2017 HK$'000 (unaudited)
Net exchange loss	**(4,388)**	(3,058)
Loss on fair value changes of financial asset at FVTPL	**(139)**	–
Others	**(695)**	(594)
	(5,222)	(3,652)

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018 HK$'000 (unaudited)	2017 HK$'000 (unaudited)
Current tax:		
Hong Kong Profits Tax	**846**	232
PRC withholding taxes	**2,088**	1,587
PRC EIT	**2,714**	11,765
	5,648	13,584
Deferred tax:		
Current year	**(2,534)**	819
	3,114	14,403

7. INCOME TAX EXPENSE (Continued)

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profits for both periods.

The income tax rate of the PRC subsidiaries is 25% for both periods.

As approved by various competent tax bureaus, the PRC withholding taxes relating to intra-group distributorship development and maintenance service fee are subject to statutory tax rate of 25% on their respective deemed taxable income or the tax rate of 10% on taxable revenue in accordance with the prescribed tax calculation method pursuant to the applicable PRC tax regulations.

8. (LOSS) PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
(Loss) profit for the period is arrived at after charging:		
Employee's benefits expense (including directors' emoluments)	**153,860**	96,126
Allowance for inventories, net (included in cost of goods sold)	**4,498**	4,632
Depreciation of property, plant and equipment	**22,188**	16,193
Operating lease rentals in respect of		
– rented premises of warehouse (included in selling and distribution expenses)	**11,753**	9,368
– rented premises of office (included in general and administrative expenses)	**8,831**	6,162
– retail shops (included in selling and distribution expenses)	**73,907**	59,307
– consignment counters (included in selling and distribution expenses)	**2,513**	2,010

9. DIVIDENDS

On 7 June 2017, a special dividend of HK$50,000,000 was declared and approved by directors of the Company to Lovable International Holdings, the then immediate holding of the Company.

During the current interim period, a final dividend of HK2.23 cents per share in respect of the year ended 31 December 2017 was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the interim period amounted to HK$17,840,000.

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	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
(Loss) earnings		
(Loss) earnings attributable to the owners of the Company for the purpose of calculation of basic (loss) earnings per share	**(64,216)**	38,737
(Loss) earnings attributable to the owners of the Company for the purpose of calculation of diluted (loss) earnings per share	**(64,216)**	N/A

	Six months ended 30 June	
	2018	2017
	'000	'000
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of calculation of basic earnings per share	**800,000**	600,000
Effect of dilutive potential ordinary shares in respect of outstanding share options	**–**	N/A
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	**800,000**	N/A

The number of ordinary shares for the purpose of calculation of basic earnings per share for the six months ended 30 June 2017 has taken into account the shares issued pursuant to the capitalisation issue as set out in note 17(e).

The computation of diluted loss per share for the six months ended 30 June 2018 does not assume the exercise of the Company's outstanding share options since their exercise would result in a decrease in loss per share for the six months ended 30 June 2018.

No diluted earnings per share was presented for the six months ended 30 June 2017 as there was no potential ordinary share outstanding during that period.

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, additions to property, plant and equipment amounted to HK$26,931,000 (six months ended 30 June 2017: HK$14,644,000), consisting of leasehold improvements, furniture and equipment and motor vehicles.

12. FINANCIAL ASSET AT FVTPL

The amount represented an investment in 1.5% interest in unlisted equity security in a company incorporated in the PRC. Pursuant to the share transfer agreement, the Group has a put option to sell back the interest to the seller at principal plus interest if the investee company or any of its subsidiaries fails to be listed in a recognised stock exchange within 4 years. The investee company is engaged in the development of animation production and distribution.

The above investment is recognised as financial asset at FVTPL.

13. DEPOSIT PAID FOR ACQUISITION OF INTANGIBLE ASSETS

In June 2018, the Company entered into an agreement with an independent third party to acquire certain intangible assets at consideration of Euro 1,200,000 (equivalent to approximately HK$11,612,000). As at 30 June 2018, the Group has paid a deposit for the whole amount of consideration for the aforesaid acquisition in an escrow account.

14. TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	At 30 June 2018 HK$'000 (unaudited)	At 31 December 2017 HK$'000 (audited)
Trade receivables, net	**216,732**	191,584
Other receivables, deposits and prepayments		
– Deposits	**44,428**	34,853
– Prepayments for purchase of merchandise stock for resale and expenses	**33,694**	22,086
– Rebate receivables from suppliers	**33,299**	39,913
– Promotion income receivable from brand owners	**1,562**	8,536
– Other taxes recoverable	**14,526**	13,077
– Others	**6,009**	5,605
	133,518	124,070

14. TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

The Group's retail sales are mainly made through its self-operated retail network comprising stand-alone retail shops and consignment counters in department stores. The Group also sells directly to retailers in the PRC. Sales at self-operated retail shops in the PRC are transacted either by cash, credit cards, Alipay or WeChat Pay in which the settlement period is normally within 2 days from transaction date. For sales made at consignment counters, the department stores make collection from the ultimate customers and then pay the balance after deducting the consignment expenses to the Group. The credit period granted to department stores ranges from 30 days to 180 days.

The Group's distribution business is operated through sales to online key accounts, offline distributors and hypermarket and supermarket chains in the PRC. The Group's trading terms with its distributors and hypermarket and supermarket chains are mainly on credit, while in general for the offline distributors are in cash. The credit period granted to a few offline distributors, online key accounts and hypermarket and supermarket chains ranges from 15 days to 60 days.

The following is an aged analysis of trade receivables, net of allowance for doubtful debts, presented based on the revenue recognition.

	At 30 June 2018 HK$'000 (unaudited)	At 31 December 2017 HK$'000 (audited)
Within 30 days	**134,769**	151,141
31 to 60 days	**37,211**	18,027
61 to 90 days	**27,081**	9,939
91 to 180 days	**14,613**	8,588
181 to 365 days	**3,058**	3,889
	216,732	191,584

15. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	At 30 June 2018 HK$'000 (unaudited)	At 31 December 2017 HK$'000 (audited)
Trade payables	**250,855**	303,115
Other payables and accruals		
– Deposits received from customers	**–**	22,741
– Accrued expenses	**38,623**	28,932
– Provision for retirement benefit costs	**24,026**	35,521
– Provision for reinstatement costs	**20,654**	19,782
– Other taxes payable	**10,825**	3,103
– Others	**4,215**	3,112
	98,343	113,191
Less: Provision for reinstatement costs presented as non-current liability	**(12,030)**	(12,070)
Other payables and accruals presented as current liabilities	**86,313**	101,121

The credit periods on trade payables offered by suppliers are within 60 days to 90 days.

The following is an analysis of trade payables by age, presented based on the invoice date.

	At 30 June 2018 HK$'000 (unaudited)	At 31 December 2017 HK$'000 (audited)
Within 30 days	**116,277**	192,790
31 to 60 days	**102,534**	84,199
61 to 90 days	**28,882**	23,606
Over 90 days	**3,162**	2,520
	250,855	303,115

16. CONTRACT LIABILITIES

Contract liabilities of the Group arise from the advance payments made by customers while the underlying products are yet to be delivered.

17. SHARE CAPITAL

	Notes	Number of shares	HK$'000
Ordinary shares of HK$0.01 each			
Authorised:			
At 26 April 2017 (date of incorporation) and 30 June 2017	*(a)*	38,000,000	380
Increase during the period	*(d)*	49,962,000,000	499,620
At 31 December 2017 (audited) and 30 June 2018 (unaudited)		50,000,000,000	500,000
Issued and fully paid:			
At 26 April 2017 (date of incorporation)	*(a)*	1	–
Issue of shares at par for the Reorganisation	*(b)*	2	–
Issue of shares	*(c)*	100,000	1
At 30 June 2017		100,003	1
Capitalisation issue	*(e)*	599,899,997	5,999
Issue of shares upon listing	*(f)*	200,000,000	2,000
At 31 December 2017 (audited) and 30 June 2018 (unaudited)		800,000,000	8,000

Notes:

(a) On 26 April 2017, the Company was incorporated in the Cayman Islands with an authorised share capital of HK$380,000 divided into 38,000,000 shares of a par value of HK$0.01 each. One share of HK$0.01 was issued and allotted to the initial subscriber, which was subsequently transferred to Lovable International Holdings.

(b) On 29 May 2017, the Company acquired 58 shares and 1 share, representing 58% and 100% of the issued share capital of Silverkids and Kidsland Holdings, respectively, from Lovable International Holdings. The consideration was satisfied by allotting and issuing one share and one share of the Company, credited as fully paid, respectively.

(c) On 9 June 2017, 100,000 shares of the Company were issued to shareholders of Lovable International Holdings at HK$1,000 for the Reorganisation.

(d) On 20 October 2017, the shareholders of the Company passed a written resolution pursuant to which the authorised share capital of the Company was increased from HK$380,000 to HK$500,000,000 divided into 50,000,000,000 ordinary shares with a par value of HK$0.01 each.

(e) On 20 October 2017, the directors of the Company were authorised to capitalise an amount of HK$5,999,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 599,899,997 shares.

(f) On 10 November 2017, shares of the Company were listed on the Stock Exchange. 200,000,000 ordinary shares at an offer price of HK$1.55 were issued through global offering.

(g) The new shares issued during the year/period rank pari passu with the existing shares in all respects.

18. SHARE OPTION SCHEMES

(i) The Pre-IPO Share Option Scheme

On 20 October 2017, a share option scheme was adopted by the shareholders of the Company (the "Pre-IPO Share Option Scheme"). The Pre-IPO Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions that the eligible participants under the scheme have or may have made to the Group.

The eligible participants include any full-time, key employees, consultants or directors of the Company or any of its subsidiaries who, in the opinion of the directors of the Company, have contributed to the Company and/or any of its subsidiaries.

On the same date, the Company has authorised to grant to 78 eligible participants to subscribe for an aggregate of 47,500,000 shares under the Pre-IPO Share Option Scheme.

The exercise price of a share in respect of any particular share option offered under the Pre-IPO Share Option Scheme shall be HK$0.8.

The share options granted to each grantee under the Pre-IPO Share Option Scheme shall be vested in three tranches representing 40%, 30% and 30% of the total number of options granted, respectively, commencing on 25 October 2018, the first anniversary of the grant date and on each of the second and third anniversary of the grant date. No consideration is payable on the grant of an option. The grantees to whom a share option has been granted under the Pre-IPO Share Option Scheme will be entitled to exercise the share option any time after the share option has been vested but in any event on or before the expiry of ten years from the grant date.

The following tables disclose details of movements of share options granted during the year/period under the Pre-IPO Share Option Scheme:

Options	Vesting period	Outstanding at 31 December 2017 (audited) and 30 June 2018 (unaudited)
Directors		
Tranche 1	25 October 2017 to 24 October 2018	5,400,000
Tranche 2	25 October 2017 to 24 October 2019	4,050,000
Tranche 3	25 October 2017 to 24 October 2020	4,050,000
		13,500,000
Employees		
Tranche 1	25 October 2017 to 24 October 2018	13,600,000
Tranche 2	25 October 2017 to 24 October 2019	10,200,000
Tranche 3	25 October 2017 to 24 October 2020	10,200,000
		34,000,000
		47,500,000

18. SHARE OPTION SCHEMES (Continued)

(i) The Pre-IPO Share Option Scheme (Continued)

Details of the share options granted under the Pre-IPO Share Option Scheme are as follows:

	Date of grant	Number of share options granted	Exercise period
Tranche 1	25 October 2017	19,000,000	25 October 2018 to 24 October 2027
Tranche 2	25 October 2017	14,250,000	25 October 2019 to 24 October 2027
Tranche 3	25 October 2017	14,250,000	25 October 2020 to 24 October 2027

The Group recognised a total expense of HK$15,805,000 during the six months ended 30 June 2018 in relation to the Pre-IPO share options granted by the Company.

19. OPERATING LEASES

During the year/period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of leased warehouses, offices, retail shops and consignment counters as follows:

	At 30 June 2018 HK$'000 (unaudited)	At 31 December 2017 HK$'000 (audited)
Within one year	**139,336**	133,974
In the second to fifth year, inclusive	**151,546**	122,841
Over five years	**28,948**	54
	319,830	256,869

Leases are negotiated with monthly rental for a range of one to five and a half years (2017: one to five and a half years).

The above lease commitments represent basic rents only and do not include contingent rents payable in respect of certain retail shops' and consignment counters' turnover pursuant to the terms and conditions as set out in respective rental agreements.

20. CAPITAL COMMITMENTS

	At 30 June 2018 HK$'000 (unaudited)	At 31 December 2017 HK$'000 (audited)
Contracted but not provided for in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	**4,770**	159

21. RELATED PARTY DISCLOSURES

(a) Transactions

Name of related parties	Nature of transactions	Six months ended 30 June 2018 HK$'000 (unaudited)	2017 HK$'000 (unaudited)
Captcha Media Limited *(Note i)*	Marketing service fee	**780**	621
Land Smart Development Limited *(Note ii)*	Rental expenses	**938**	863
Politor Limited *(Note ii)*	Rental expenses	**330**	–

Notes:

(i) The related company is controlled by Dr. Lo Wing Yan, William, a director of the Company.

(ii) The related companies are controlled by Mr. Lee.

(b) Compensation of key management personnel

The directors, chief executive and the employees included in the five highest paid individuals are identified as key management members of the Group and details of their compensation during the six months ended 30 June 2018 and 2017 were as follows:

	Six months ended 30 June 2018 HK$'000 (unaudited)	2017 HK$'000 (unaudited)
Directors' fee	**149**	–
Salaries and allowances	**3,805**	3,088
Discretionary bonus	**1,228**	654
Share-based payments	**5,480**	–
Retirement benefit schemes contributions	**442**	167
	11,104	3,909

(c) Financial guarantees

As at 1 January 2017, a personal guarantee was given by a director of the Company in respect of banking facilities granted to the Group amounting to HK$23,000,000. The personal guarantee was fully released during the six months ended 30 June 2017.

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable:

Set out below is the information about how the fair values of the Group's financial assets that are measured at fair value are determined, including the valuation technique and inputs used:

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique and key inputs
	30 June 2018 HK$'000 (unaudited)	31 December 2017 HK$'000 (audited)		
Financial asset at FVTPL				
Unlisted equity securities	**18,656**	–	Level 2	Transaction price with minor adjustments

There were no transfers between Levels 1, 2 and 3 during the period.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. Management of the Group is responsible for determination of the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments.

Detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities are disclosed above.