

KIDDIELAND

Kiddieland International Limited

童園國際有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 3830

2018 Interim Report



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Lo Shiu Kee Kenneth
(*Chief Executive Officer*)
Ms. Lo Shiu Shan Suzanne
Ms. Sin Lo Siu Wai Sylvia
Mr. Lo Hung (*Chairman*)
Ms. Leung Siu Lin Esther

Independent Non-executive Directors

Ms. Tse Yuen Shan
Mr. Man Ka Ho Donald
Mr. Cheng Dominic

AUDIT COMMITTEE

Ms. Tse Yuen Shan (*Chairwoman*)
Mr. Man Ka Ho Donald
Mr. Cheng Dominic

REMUNERATION COMMITTEE

Mr. Cheng Dominic (*Chairman*)
Ms. Tse Yuen Shan
Mr. Man Ka Ho Donald
Mr. Lo Shiu Kee Kenneth

NOMINATION COMMITTEE

Mr. Man Ka Ho Donald (*Chairman*)
Ms. Tse Yuen Shan
Mr. Cheng Dominic

AUTHORISED REPRESENTATIVES

Mr. Lo Shiu Kee Kenneth
Mr. Cheung Ka Cheong

COMPANY SECRETARY

Mr. Cheung Ka Cheong

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central, Hong Kong

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited
HSBC Main Building
1 Queen's Road Central
Hong Kong

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

14/F, Bank of America Tower
12 Harcourt Road, Central, Hong Kong

REGISTERED OFFICE

PO Box 1350, Clifton House
75 Fort Street, Grand Cayman KY1-1108
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited
PO Box 1350, Clifton House
75 Fort Street, Grand Cayman KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

COMPLIANCE ADVISOR

WAG Worldsec Corporate Finance Limited
Suite 1101, 11/F, Champion Tower
3 Garden Road, Central
Hong Kong

COMPANY WEBSITE

<http://www.kiddieland.com.hk>

STOCK CODE

3830

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Financial year 2019 continues to be a very challenging year for our Group and the toy industry in general. The Group's unaudited revenue for the six months ended 31 October 2018 (the "**Review Period**") was approximately HK\$203.1 million, which was decreased by 15.3% as compared to the corresponding period last year (the "**Last Period**") (2017: HK\$239.7 million). Profit before tax of the Group was approximately HK\$12.5 million, representing a decrease of 40.2% as compared to the Last Period (2017: HK\$20.9 million). The profit attributable to equity shareholders for the Review Period amounted to approximately HK\$11.0 million.

OPERATING RESULTS

Revenue

Revenue generated from North America decreased by 13.5% to approximately HK\$117.0 million in the Review Period (2017: HK\$135.2 million). The decrease was mainly attributed to the cessation of sales to Toys "R" Us Inc. ("**TRU**") in U.S. which filed for Chapter 11 bankruptcy order in September 2017 and subsequently declared liquidation of its U.S. operation in March 2018.

On the other hand, revenue generated from Europe also decreased by 16.2% to approximately HK\$68.2 million in the Review Period (2017: HK\$81.4 million). Both average selling price and orders from various customers in European markets had decreased due to the change of their product mix. The decrease was also attributed to the decrease in sales to various subsidiaries of TRU in Europe that also filed for bankruptcy proceeding or being disposed after the Last Period.

As a result of the above, the Group's overall revenue decreased by 15.3% to approximately HK\$203.1 million in the Review Period (2017: HK\$239.7 million).

Gross profit

The Group's gross profit decreased by 27.5% to approximately HK\$43.4 million in the Review Period (2017: HK\$59.9 million). The decrease was attributed to the decrease in revenue discussed above as well as the increase in cost of primary raw materials, labour costs and production overheads during the Review Period. The gross profit margin of the Review Period decreased to 21.4% as compared to 25.0% of the Last Period.



MANAGEMENT DISCUSSION AND ANALYSIS

Selling and distribution expenses

Selling and distribution expenses decreased by 16.4% to approximately HK\$11.2 million in the Review Period (2017: HK\$13.4 million). The decrease was mainly attributable to the decrease in commissions and advertising & promotion expenses which were in line with the decrease in revenue.

Administrative expenses

Administrative expenses decreased by 17.7% to approximately HK\$19.0 million in the Review Period (2017: HK\$23.1 million). The decrease was attributed to the absence of listing expenses of HK\$6.2 million as compared to that in the Last Period and partially offset by the non-cash share-based payment expenses of HK\$1.3 million recognised regarding the employees' share options granted in the Review Period.

Finance costs

Net finance costs decreased by 16.1% to approximately HK\$2.6 million in the Review Period (2017: HK\$3.1 million). The decrease was attributed to the decrease in the average bank borrowings level.

Income tax expenses

The Group recorded income tax expenses of approximately HK\$1.5 million for the Review Period, compared to approximately HK\$3.9 million for the Last Period.

Net profit

As mentioned above, due to the decrease in revenue, together with the increase in the production cost and the share-based payment expenses recognised, the profit after tax decreased by HK\$6.0 million or 35.3% from approximately HK\$17.0 million for the Last Period to approximately HK\$11.0 million for the Review Period.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK/FUTURE PROSPECTS AND STRATEGIES

Financial year 2019 continues to be a challenging year as more traditional retailers start having troubles surviving due to the emergence of internet sales. The trends of video games consoles and electronic tablets/phones gaining momentum have continued to erode the traditional toy market. Two of the Group's significant customers have recently filed for bankruptcy protection in the past few months. The closing of TRU in U.S. and other countries earlier this year has also proven to cause a long-term effect on the overall toy business globally. As expected, the loss of sales originated from the TRU group was not picked up entirely by other retailer channels and the Group's business has suffered subsequently.

While RMB's depreciation against US\$ has helped manufacturers to manage their cost in a positive way, the gradual rise in both raw materials and labour costs have more than offset the currency advantage. Moreover, the strength of US\$ against many other currencies, such as Euro, British Pound Sterling and Japanese Yen have caused adverse impact on the attractiveness of China-made products in those respective countries.

In addition, there are still plenty of uncertainties concerning the trade war between U.S. and China at this moment. While toys is a category that has not yet been affected by the tariffs U.S. has imposed on China imported goods, the Directors remain cautious on what President Trump's next move is going to be. U.S. has been by far the largest market and the effect of imposing any import duties may become very costly to the Group's ongoing business.

The economies especially in Europe and many other countries remain sluggish. Demand in toys is low when dispensable income and job security remain questionable. Given the market sentiments, the Directors realise that growth has to come from strong new product development and this year the Group has placed a heavy emphasis on creating more innovative toys. Aligning with new and emerging licensors remain a top priority for the Group as the management continues to evaluate and pursue new licensing opportunities. Cost cutting is equally important in today's competitive marketplace when every cost element of production is rising. Existing products are constantly being examined and reengineered to achieve lower costs. Despite all these measures, overall business is anticipated to remain stagnant in the near term but the Directors are confident that the business environment is going to improve in the longer term.

Next year in 2019 there will be two new movie releases by Disney that will have an impact on the Group's sales. They are Toy Story 4 and Frozen 2, both of which have enjoyed a long history of strong performance, and their franchises have done satisfactorily in the Group's primary category in the past. The Directors are excited about the opportunities and they anticipate that the launch of these two new movies will bring substantial sales to the Group in financial year 2020.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 October 2018

	Note	Six months ended 31 October 2018 HK\$'000 (unaudited)	Six months ended 31 October 2017 HK\$'000 (unaudited)
Revenue	6	203,077	239,721
Cost of sales	7	(159,717)	(179,813)
Gross profit		43,360	59,908
Other income		394	639
Other gains, net		1,548	51
Selling and distribution expenses	7	(11,200)	(13,441)
Administrative expenses	7	(19,012)	(23,121)
Operating profit		15,090	24,036
Finance income		4	4
Finance expenses		(2,558)	(3,100)
Finance costs, net		(2,554)	(3,096)
Profit before taxation		12,536	20,940
Income tax expenses	8	(1,519)	(3,918)
Profit for the period		11,017	17,022
Other comprehensive (loss)/income			
<i>Item that may be reclassified to profit or loss:</i>			
Currency translation differences		(6,702)	2,478
Total other comprehensive (loss)/income for the period, net of tax		(6,702)	2,478
Total comprehensive income for the period		4,315	19,500
Earnings per share for profit attributable to owners of the Company during the period (expressed in HK cents per share)			
Basic and diluted earnings per share	9	1.1	2.1

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 October 2018

	Note	As at 31 October 2018 HK\$'000 (unaudited)	As at 30 April 2018 HK\$'000 (audited)
ASSETS			
Non-current assets			
Prepaid operating lease		12,284	13,204
Property, plant and equipment	11	106,633	107,452
Intangible assets	12	20,940	29,343
Deferred income tax assets		5,693	7,136
Prepayment		506	1,064
		146,056	158,199
Current assets			
Inventories		103,540	113,533
Trade and bills receivables	13	78,327	19,276
Other receivables, deposits and prepayments		4,012	2,968
Income tax recoverable		1,590	3,750
Cash and bank balances		20,022	43,240
		207,491	182,767
Total assets		353,547	340,966
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital	14	100,000	100,000
Other reserves		6,242	4,922
Exchange reserves		(4,286)	2,416
Retained earnings		44,489	33,472
Total equity		146,445	140,810

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 October 2018

	Note	As at 31 October 2018 HK\$'000 (unaudited)	As at 30 April 2018 HK\$'000 (audited)
LIABILITIES			
Non-current liabilities			
Bank borrowings		–	5,000
Deferred income tax liabilities		3,935	4,159
Other payables		151	9,593
		4,086	18,752
Current liabilities			
Bank borrowings		141,943	118,160
Trade and bills payables	15	18,969	20,078
Accruals and other payables		39,945	42,137
Contract liabilities		902	–
Income tax payable		1,257	1,029
		203,016	181,404
Total liabilities		207,102	200,156
Total equity and liabilities		353,547	340,966

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 October 2018

	Attributable to owners of the Company (unaudited)				
	Share capital HK\$'000	Other reserves HK\$'000	Exchange reserves HK\$'000	Retained earnings HK\$'000	Total equity HK\$'000
Balance as at 1 May 2018	100,000	4,922	2,416	33,472	140,810
Profit for the period	–	–	–	11,017	11,017
Other comprehensive loss	–	–	(6,702)	–	(6,702)
Total comprehensive income	–	–	(6,702)	11,017	4,315
Transaction with owners:					
— Employees' share option scheme (note 16)	–	1,320	–	–	1,320
	–	1,320	–	–	1,320
Balance as at 31 October 2018	100,000	6,242	(4,286)	44,489	146,445

	Attributable to owners of the Company (unaudited)				
	Share capital HK\$'000	Other reserves HK\$'000	Exchange reserves HK\$'000	Retained earnings HK\$'000	Total equity HK\$'000
Balance as at 1 May 2017	1	45	(3,310)	147,196	143,932
Profit for the period	–	–	–	17,022	17,022
Other comprehensive income	–	–	2,478	–	2,478
Total comprehensive income	–	–	2,478	17,022	19,500
Transaction with owners:					
— Issuance of ordinary shares upon capitalisation issue	74,999	(74,999)	–	–	–
— Issuance of ordinary shares upon initial public offering	25,000	95,000	–	–	120,000
— Dividends paid (note 10)	–	–	–	(100,000)	(100,000)
— Share issuance costs	–	(15,124)	–	–	(15,124)
	99,999	4,877	–	(100,000)	4,876
Balance as at 31 October 2017	100,000	4,922	(832)	64,218	168,308

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 October 2018

	Six months ended 31 October 2018 HK\$'000 (unaudited)	Six months ended 31 October 2017 HK\$'000 (unaudited)
Cash flows from operating activities		
Net cash used in operations	(21,471)	(1,686)
Interest received	4	4
Interest paid	(2,285)	(3,548)
Income tax refunded/(paid)	2,088	(2,884)
Net cash used in operating activities	(21,664)	(8,114)
Cash flows from investing activities		
Purchases of property, plant and equipment	(10,876)	(8,116)
Settlements of liabilities arising from acquisitions of licenses	(9,344)	(7,930)
Repayment from related companies	–	49
Advances to related companies	–	(8,399)
Net cash used in investing activities	(20,220)	(24,396)
Cash flows from financing activities		
Proceeds from bank borrowings	183,482	197,864
Repayment of bank borrowings	(127,044)	(254,641)
Dividends paid	–	(1,407)
Proceeds from issuance of shares	–	120,000
Advance from controlling shareholders	–	169
Listing costs paid (equity portion)	–	(11,694)
Net cash generated from financing activities	56,438	50,291
Net increase in cash and cash equivalents	14,554	17,781
Effect on exchange rate differences	(117)	87
Cash and cash equivalents and bank overdrafts at beginning of the period	5,585	1,203
Cash and cash equivalents and bank overdrafts at end of the period	20,022	19,071

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION OF THE GROUP

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

The condensed consolidated interim financial information is presented in Hong Kong Dollars (“**HK\$**”) unless otherwise stated.

2 BASIS OF PREPARATION

The unaudited condensed consolidated interim financial information for the six months ended 31 October 2018 is prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34, “Interim Financial Reporting”. It should be read in conjunction with the annual report for the year ended 30 April 2018 (the “**Annual Report**”), which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied are consistent with those as described in the Annual Report, except for the adoption of new standards, amendments and interpretations of HKFRSs effective for the financial year ending 30 April 2019.

- (a) New standards, amendments and interpretations of HKFRSs relevant to the Group became applicable for the current reporting period and the Group had to change its accounting policies:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers

The impact of adoption of these above standards and the new accounting policies are disclosed in note 19.

- (b) New standards, amendments and interpretations of HKFRSs have been issued but not yet effective and have not been early adopted by the Group:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

None of the above new standards and amendments to existing standards is expected to have a significant effect on the consolidated financial statements of the Group, except for HKFRS 16 Leases. For details, please refer to note 2.1 of the Annual Report.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4 ESTIMATES

The preparation of condensed consolidated interim financial information requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual report for the year ended 30 April 2018.

5 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual report, and should be read in conjunction with the annual report for the year ended 30 April 2018.

There have been no changes in the Group's risk management policies since the year ended 30 April 2018.

(b) Liquidity risk

Compared to the year ended 30 April 2018, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

(c) Fair value estimation

The Group's financial assets comprise of cash and bank balances, trade and bills receivables, other receivables and deposits; and the Group's financial liabilities comprise of trade and bills payables, accruals and other payables and bank borrowings. The carrying amounts of the financial assets and financial liabilities approximate their fair values due to their short maturities.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 SEGMENT INFORMATION

The executive Directors of the Company have been identified as the chief operating decision-makers of the Group who review the Group's internal reporting in order to assess performance of the Group on a regular basis and allocate resources. The chief operating decision-makers assess the performance of the Toys Business based on a measure of operating results and consider the Toys Business in a single operating segment. Information reported to the chief operating decision-makers for the purposes of resources allocation and performance assessment focuses on the operation results of the Group as a whole as the Group's resources are integrated. Accordingly, the Group has identified one operating segment — manufacturing and selling of plastic toy products.

For the six months ended 31 October 2018, revenue by geographical areas is as follows:

	Six months ended 31 October 2018 HK\$'000 (unaudited)	Six months ended 31 October 2017 HK\$'000 (unaudited)
America	121,157	140,091
Europe	68,165	81,401
Asia Pacific and Oceania	13,363	17,420
Africa	392	809
	203,077	239,721

The analysis of revenue by geographical segment is based on the location of customers.

For the six months ended 31 October 2018, there was one (six months ended 31 October 2017: one) customer which individually contributed over 10% of the Group's total revenue. During the period, the revenue contributed from the customer is as follows:

	Six months ended 31 October 2018 HK\$'000 (unaudited)	Six months ended 31 October 2017 HK\$'000 (unaudited)
Customer A	50,647	54,093

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7 EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses and administrative expenses are analysed as follows:

	Six months ended 31 October 2018 HK\$'000 (unaudited)	Six months ended 31 October 2017 HK\$'000 (unaudited)
Auditor's remuneration (excluding listing related services)		
— Audit services	733	550
— Non-audit services	383	300
Advertising and promotion expenses	930	2,046
Amortisation of prepaid operating lease	203	203
Amortisation of intangible assets (note 12)	9,852	10,730
Allowance for impairment of trade receivables	484	–
Bank charges	910	1,067
Commissions	2,463	3,507
Consumables	3,916	4,642
Cost of inventories sold	77,057	86,234
Custom and declaration handling expenses	1,230	1,661
Depreciation of property, plant and equipment (note 11)	9,049	9,178
Other taxes and surcharges	1,643	2,695
Operating lease expenses	3,044	3,032
Product testing expenses	496	1,153
Repair and maintenance expenses	1,026	1,609
Licenses fees	6,289	13,715
Staff costs, including Directors' remuneration	50,580	49,706
Share-based payment expenses (note 16)	1,320	–
Subcontracting expenses	924	892
Listing expenses	–	6,226
Logistics and warehousing expenses	9,791	8,003
Utilities	6,288	6,555
Other expenses	1,318	2,671
	189,929	216,375

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

8 INCOME TAX EXPENSES

For the six months ended 31 October 2018 and 2017, Hong Kong profits tax has been provided for at the rate of 16.5% on the estimated assessable profit. The Group's subsidiaries in the PRC are subject to China enterprise income tax at a rate of 25% on estimated assessable profits. The Group's subsidiary in the U.S. is subject to U.S. corporate income tax at progressive tax rates ranged from 5% to 39% on the estimated assessable profit.

The amount of income tax expenses charged to the condensed consolidated interim statement of comprehensive income represents:

	Six months ended 31 October 2018 HK\$'000 (unaudited)	Six months ended 31 October 2017 HK\$'000 (unaudited)
Current income tax		
— Current tax on profit for the period	301	3,264
Deferred income tax	1,218	654
Income tax expenses	1,519	3,918

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

9 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the Company's owners by the weighted average number of ordinary shares in issue during the six months ended 31 October 2018 and 2017.

	Six months ended 31 October 2018 (unaudited)	Six months ended 31 October 2017 (unaudited)
Profit attributable to the owners of the Company (HK\$'000)	11,017	17,022
Weighted average number of ordinary shares in issue (in thousand)	1,000,000	804,645
Basic earnings per share (HK cents)	1.1	2.1

(b) Diluted earnings per share

Diluted earnings per share for the period ended 31 October 2018 is the same as basic earnings per share as the potential ordinary shares in relation to the share options granted to the employees (note 16) are anti-dilutive and we do not assume any conversion and exercise. Diluted earnings per share for the period ended 31 October 2017 is the same as basic earnings per share as there were no potentially dilutive ordinary shares issued.

10 DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation. Dividends during the six months ended 31 October 2017 represented dividends declared by Kiddieland Industrial Limited to its then equity holders.

At the Board meeting held on 15 September 2017, the Board declared an interim dividend of HK\$10,000 per share amounting to HK\$100,000,000 before the listing on the Main Board of The Stock Exchange of Hong Kong Limited and HK\$98,593,000 was net-off with the amounts due from the shareholders and related entities owned by them.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

11 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Factories and buildings	Furniture and fixtures	Office equipment	Motor vehicles	Plant and machinery	Moulds and tools	Moulds work-in-progress	Construction-in-progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Six months ended										
31 October 2017										
Net book value										
At beginning of the period	17,035	40,005	1,038	215	189	8,708	26,050	6,981	-	100,221
Addition	534	-	-	313	121	747	26	4,742	3,612	10,095
Depreciation (note 7)	(1,952)	(551)	(233)	(92)	(15)	(1,118)	(5,217)	-	-	(9,178)
Transfer upon completion	-	-	-	-	-	-	3,844	(3,844)	-	-
Exchange differences	179	-	17	1	12	119	444	297	-	1,069
At end of the period	15,796	39,454	822	437	307	8,456	25,147	8,176	3,612	102,207
Six months ended										
31 October 2018										
Net book value										
At beginning of the period	19,362	38,902	696	455	307	8,186	28,029	10,698	817	107,452
Addition	759	-	-	241	-	1,812	158	8,173	1,089	12,232
Depreciation (note 7)	(2,027)	(551)	(196)	(147)	(83)	(1,168)	(4,877)	-	-	(9,049)
Transfer upon completion	1,040	-	-	-	-	-	10,870	(10,870)	(1,040)	-
Exchange differences	(907)	-	(29)	(3)	(26)	(428)	(1,788)	(753)	(68)	(4,002)
At end of the period	18,227	38,351	471	546	198	8,402	32,392	7,248	798	106,633

As at 31 October 2018, the Group was in the process of obtaining the property ownership certificates of the leasehold improvements and factories and buildings in the PRC with carrying amounts of approximately HK\$56,578,000 (30 April 2018: HK\$58,264,000). In the opinion of the Directors, based on the advice from the Group's external legal adviser, the absence of the property ownership certificates of these properties does not affect the right of use of these factories and buildings. The Directors considered that the absence of the property ownership certificates does not impair their carrying values to the Group as the Group was permitted for construction on the leased land and the probability of being evicted on the ground of an absence of property ownership certificates was remote.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

12 INTANGIBLE ASSETS

	Six months ended 31 October 2018 HK\$'000 (unaudited)	Six months ended 31 October 2017 HK\$'000 (unaudited)
Licenses		
Beginning of the period	29,343	29,009
Addition	1,449	20,397
Less: amortisation (note 7)	(9,852)	(10,730)
	29,940	38,676
End of the period	20,940	38,676

13 TRADE AND BILLS RECEIVABLES

Trade and bills receivables are denominated in the following currencies:

	As at 31 October 2018 HK\$'000 (unaudited)	As at 30 April 2018 HK\$'000 (audited)
US\$	78,080	18,583
RMB	247	693
	78,327	19,276

The credit periods granted to customers are ranging from 0 to 180 days. The ageing analysis of trade and bills receivables based on invoice date is as follows:

	As at 31 October 2018 HK\$'000 (unaudited)	As at 30 April 2018 HK\$'000 (audited)
Up to 3 months	72,581	17,702
Over 3 months	5,746	1,574
	78,327	19,276

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

13 TRADE AND BILLS RECEIVABLES (continued)

Trade and bills receivables that are past due but not impaired are as follows:

	As at 31 October 2018 HK\$'000 (unaudited)	As at 30 April 2018 HK\$'000 (audited)
Past due by:		
Up to 3 months	3,332	1,907
Over 3 months	251	90
	3,583	1,997

The maximum exposure to credit risk as at 31 October 2018 was the carrying amounts of trade and bills receivables. The Group did not hold any collateral as security. The carrying amounts of trade and bills receivables approximate their fair values.

14 SHARE CAPITAL

	(Unaudited) As at 31 October 2018		(Audited) As at 30 April 2018	
	Number of shares	Nominal value HK\$'000	Number of shares	Nominal value HK\$'000
Ordinary shares of HK\$0.1 each				
Authorised:				
At end of the period/year	10,000,000,000	1,000,000	10,000,000,000	1,000,000
Issued and fully paid:				
At beginning of the period/year	1,000,000,000	100,000	10,000	1
Upon capitalisation issue (note (i))	–	–	749,990,000	74,999
Upon initial public offering (note (ii))	–	–	250,000,000	25,000
At end of the period/year	1,000,000,000	100,000	1,000,000,000	100,000

Notes:

- (i) On 21 September 2017, an amount of HK\$74,999,000 was capitalised from share premium to share capital of the Company.
- (ii) On 21 September 2017, 250,000,000 ordinary shares of HK\$0.1 each were issued at an offer price of HK\$0.48 per share for a total consideration of HK\$120,000,000.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

15 TRADE AND BILLS PAYABLES

Trade and bills payables are denominated in the following currencies:

	As at 31 October 2018 HK\$'000 (unaudited)	As at 30 April 2018 HK\$'000 (audited)
US\$	2,170	1,787
HK\$	12,933	12,313
RMB	3,866	5,978
	18,969	20,078

As at 31 October 2018, the ageing analysis of trade and bills payables based on invoice date is as follows:

	As at 31 October 2018 HK\$'000 (unaudited)	As at 30 April 2018 HK\$'000 (audited)
Within 1 month	2,893	10,435
1–2 months	6,966	5,936
2–3 months	5,920	957
Over 3 months	3,190	2,750
	18,969	20,078

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

16 SHARE-BASED PAYMENT EXPENSES

On 19 July 2018, the Group granted certain selected employees share options (the "Share Options") which enable them to subscribe 20,000,000 ordinary shares of the Company at an exercise price of HK\$0.28 per share. The Share Options are fully vested on 19 July 2018 and are exercisable within three years from 19 July 2018 to 18 July 2021 (both dates inclusive).

The weighted average fair value of the Share Options granted determined by using the Binomial Options Pricing Model was HK\$0.066 per share option. The significant inputs into the model were annualised volatility of 44%, exercise multiple of 2.2 and expected dividend yield of 0%. The share-based payment expenses incurred for the Share Options for the six months ended 31 October 2018 were HK\$1,320,000.

17 COMMITMENTS

(a) Capital commitments

	As at 31 October 2018 HK\$'000 (unaudited)	As at 30 April 2018 HK\$'000 (audited)
Authorised but not contracted for:		
Land use right	24,738	27,183
Contracted but not provided for:		
Property, plant and equipment	4,783	1,096

(b) Operating lease commitments — as lessee

	As at 31 October 2018 HK\$'000 (unaudited)	As at 30 April 2018 HK\$'000 (audited)
Within 1 year	6,182	1,022
Between 2 to 5 years	3,494	295
	9,676	1,317

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

18 RELATED PARTY TRANSACTIONS

The Directors are of the view that the following parties/companies were related parties that had transactions or balances with the Group during the period. The related party transactions set out below were carried out on terms mutually agreed between the parties.

Name of related parties	Relationship with the Group
Mr. Lo Hung	Controlling shareholder and executive Director
Ms. Leung Siu Lin Esther	Controlling shareholder and executive Director
Mr. Lo Shiu Kee Kenneth	Controlling shareholder and executive Director
Ms. Lo Shiu Shan Suzanne	Controlling shareholder and executive Director
Ms. Sin Lo Siu Wai Sylvia	Controlling shareholder and executive Director
Esther & Victor Limited	Controlled by the controlling shareholders
Top Dragon Enterprise Investment Limited	Controlled by the controlling shareholders

(a) Transactions with related parties

	Six months ended 31 October 2018 HK\$'000 (unaudited)	Six months ended 31 October 2017 HK\$'000 (unaudited)
(i) Operating lease expense for office paid to Top Dragon Enterprise Investment Limited	2,880	2,880
	2,880	2,880
(ii) Key management compensation		
Wages, salaries and bonuses	5,473	4,132
Retirement benefits	81	81
Other benefits	120	120
	5,674	4,333

(b) Other arrangement

During the period, a related company, Esther & Victor Limited, pledged its property to a bank to make available to the Group's bank facilities of HK\$99,090,000 and remove the restrictive financial covenants.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

19 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's condensed consolidated financial information and also discloses the new accounting policies that have been applied from 1 May 2018, where they are different to those applied in prior periods.

(a) Impact on the condensed consolidated financial information

As explained in notes below, HKFRS 9 was adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules, if any, are therefore not reflected in the statement of financial position as at 30 April 2018, but are recognised in the beginning of the financial period on 1 May 2018.

(b) HKFRS 9 Financial Instruments — impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 May 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the condensed consolidated financial information. The new accounting policies are set out in note 19(c) below. In accordance with the transitional provisions in HKFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated.

The Group has trade receivables for sales of goods that are subject to HKFRS 9's new expected credit loss model, and the Group was required to revise its impairment methodology under HKFRS 9 for these receivables.

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables from initial recognition. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The adoption of new approach did not result in material impact on the amounts reported in the beginning balances as at 1 May 2018.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, no impairment loss was identified.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

19 CHANGES IN ACCOUNTING POLICIES *(continued)*

(c) HKFRS 9 Financial Instruments — summary of significant accounting policies

The following describes the Group's updated financial instruments policy to reflect the adoption of HKFRS 9:

Investments and other financial assets

Classification

From 1 January 2018, the Group classifies its financial assets into the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

19 CHANGES IN ACCOUNTING POLICIES *(continued)*

(c) HKFRS 9 Financial Instruments — summary of significant accounting policies *(continued)*

Investments and other financial assets (continued)

Measurement (continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories in which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising from derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of comprehensive income.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment losses are presented as a separate line item in the statement of comprehensive income.
- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt instrument that is subsequently measured at FVPL is recognised in profit or loss and presented the net amount within other gains/(losses) in the period in which it arises.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

19 CHANGES IN ACCOUNTING POLICIES *(continued)*

(c) **HKFRS 9 Financial Instruments — summary of significant accounting policies** *(continued)*

Investments and other financial assets (continued)

Measurement (continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

From 1 May 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

19 CHANGES IN ACCOUNTING POLICIES *(continued)*

(d) HKFRS 15 Revenue from Contracts with Customers — impact of adoption

The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) was recognised in retained earnings as at 1 May 2018 and that comparatives were not restated.

The Group is engaged in the manufacturing and selling of plastic toy products.

The Group does not incur costs to fulfill contracts which should be capitalised as they relate directly to the contracts, generate resources used in satisfying the contracts and are expected to be recovered.

The Group does not have any contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. Thus, the Group does not adjust any of the transaction prices for the time value of money.

As a result, other than certain reclassification of contract liabilities, the adoption of HKFRS 15 did not result in any net impact on the profit for the period, as the timing of revenue recognition on sales of goods and rental income is not changed.

The following adjustment was made to the amounts recognised in the consolidated statement of financial position at the date of initial application (1 May 2018):

	Accruals and other payables	Contract liabilities	Total
	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(audited)
Closing balance as at 30 April 2018	51,730	–	51,730
Reclassified other payables to contract liabilities	(1,314)	1,314	–
Opening balance as at 1 May 2018	50,416	1,314	51,730



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

19 CHANGES IN ACCOUNTING POLICIES *(continued)*

(e) HKFRS 15 Revenue from Contracts with Customers — summary of significant accounting policies

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of the Group's activities. Revenue is shown net of returns and discounts and after eliminating sales within the Group.

(i) Sales of goods

Sales are recognised when control of the goods has transferred, being when the goods are delivered to the customers, the customers have full discretion over the goods and there is no unfulfilled obligation that could affect the customers' acceptance of the goods. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to customers, and either customers have accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts (if any). Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Contract liabilities

Cash or bank acceptance notes collected from certain customers before product delivery are recognised as contract liabilities.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 October 2018, the interests and/or short positions of the Directors and/or the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules") were as follows:

Long position in shares of associated corporation — KLH Capital Limited ("KLH Capital")

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

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

Save as disclosed above, as at 31 October 2018, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the register required to be kept pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange.



OTHER INFORMATION

INTERESTS AND SHORT POSITIONS OF THE SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 October 2018, the interests and short positions of substantial shareholders (other than the Directors and the chief executive of the Company) in the shares or the underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long position in the shares

Name of shareholder	Capacity	Number of shares (ordinary)	Approximate percentage of shareholding in the Company
KLH Capital	Beneficial owner	750,000,000 (note)	75%

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

Saved as disclosed above, as at 31 October 2018, the Company is not aware of any other party (not being a Director and the chief executive of the Company), who had interests or short positions in the shares and underlying shares of the Company, which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 31 October 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 31 October 2018. On 15 September 2017, a special interim dividend of HK\$100,000,000 was declared and approved by the Board before the listing on the Main Board of the Hong Kong Stock Exchange and HK\$98,593,000 was net-off with the amounts due from the shareholders and related entities owned by them.

SHARE OPTION SCHEME

The shareholders of the Company approved and adopted a share option scheme on 31 August 2017 (the “**Share Option Scheme**”) to enable the Company to grant share options to our Directors, employees or other selected participants as incentives and rewards for their contribution to the Group. The Share Option Scheme took effect on 21 September 2017 (the “**Listing Date**”). During the period from the date of adoption of the Share Option Scheme to 31 October 2018, the details of the movement of share options granted by the Company to eligible persons are as follows:

Eligible persons	Date of grant	Exercisable period	Number of shares issuable under the share options granted					Balance as at 31 October 2018	Exercise price per share HK\$
			Balance as at 1 May 2018	Granted during the period (note (ii))	Exercised during the period	Lapsed during the period	Cancelled during the period		
Continuous Contract Employees, excluding Directors	19 July 2018	(note (i))	-	20,000,000	-	-	-	20,000,000	0.280

Notes:

- (i) The above share options are exercisable from 19 July 2018 to 18 July 2021 (both dates inclusive).
- (ii) The closing price per share as stated in the daily quotation sheet issued by the Hong Kong Stock Exchange immediately before the date on which the share options were granted was HK\$0.280.
- (iii) The cash consideration paid by each of the eligible persons for the grant of share options was HK\$1.00.
- (iv) None of the grantees above is a Director, chief executive or substantial shareholder of the Company, or an associate (as defined in the Listing Rules) of any of them.
- (v) The fair value of the share options granted during the period determined by the Binomial Options Pricing Model was HK\$0.066 per share option. The significant inputs into the model are as follows:

Share price at the grant date	HK\$0.280
Exercise price	HK\$0.280
Dividend yield	0%
Volatility	44%
Annual risk-free interest rate	1.98%

The volatility at the grant date, which measured the standard deviation of expected share price returns, is based on statistics of 750 days historical volatilities of comparable companies within the industry.

The aggregate fair value of the share options granted during the period amounted to HK\$1,320,000 was recognised as employment benefit expense at the grant date together with a corresponding increase in equity. Such fair value is subject to a number of assumptions and with regard to the limitation of the Binomial Options Pricing Model.



OTHER INFORMATION

CORPORATE GOVERNANCE CODE

Throughout the six months ended 31 October 2018, the Company had complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

CODE FOR DEALING IN COMPANY'S SECURITIES BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, the Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the six months ended 31 October 2018.

INFORMATION OF DIRECTORS AND CHIEF EXECUTIVE DISCLOSED PURSUANT TO RULE 13.51B OF THE LISTING RULES

On 18 July 2018, the Board has approved Mr. Szeto Chi Yan Stanley's resignation as an independent non-executive Director and Mr. Cheng Dominic's appointment as an independent non-executive Director. Both changes became effective from 19 July 2018.

Each of the executive Directors has entered into a service agreement with the Company on 31 August 2017. Please refer to the section headed "Particulars of Directors' service agreements and letters of appointment" of Appendix V in the Company's prospectus for further details.

Each of the independent non-executive Directors (Ms. Tse Yuen Shan and Mr. Man Ka Ho Donald) has signed a letter of appointment with the Company on 31 August 2017 and Mr. Cheng Dominic has signed a letter of appointment with the Company on 18 July 2018. The annual Director's fee payable to each of the independent non-executive Directors under the respective letters of appointment is HK\$50,000.

Save as disclosed above, there is no other information that is required to be disclosed pursuant to Rule 13.51B of the Listing Rules.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed with the management the interim report for the six months ended 31 October 2018, accounting principles and practices adopted by the Group and discussed auditing, internal controls, risk management and financial reporting matters including a review of the unaudited interim financial information.

By Order of the Board
Kiddieland International Limited
Lo Hung
Chairman

Hong Kong, 14 December 2018