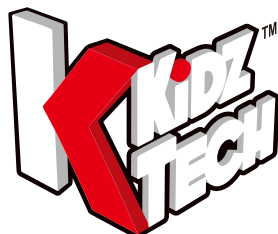


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Kidztech Holdings Limited

奇士達控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6918)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB325.8 million (2018: approximately RMB278.7 million), representing an increase of approximately 16.9%.
- Gross profit margin was approximately 37.5% (2018: approximately 34.3%), representing an increase of approximately 3.2%.
- Profit for the year before listing expenses ⁽ⁱ⁾ was approximately RMB51.8 million (2018: approximately RMB32.8 million), representing an increase of approximately 58.2%.
- Profit for the year was approximately RMB35.4 million (2018: approximately RMB32.8 million), representing an increase of approximately 8.2%.
- Basic and diluted earnings per Share was approximately RMB8.2 cents (2018: approximately RMB7.6 cents), representing an increase of approximately 7.9%.
- The Board did not recommend the payment of a final dividend for the year ended 31 December 2019.

Note:

- (i) Profit for the year before listing expenses is a non-HKFRS measure which is derived by adding back the listing expenses to profit for the year.

RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Kidztech Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2019 together with the comparative figures for the year ended 31 December 2018 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
	Note	2019	2018
		RMB'000	RMB'000
Revenue	3	325,800	278,717
Cost of sales	4	(203,610)	(183,110)
Gross profit		122,190	95,607
Selling expenses	4	(19,999)	(16,607)
Administrative expenses	4	(51,977)	(33,567)
Net impairment losses on financial assets		(4,186)	(1,324)
Other income		5,825	5,659
Other gains/(losses) – net		4,631	(463)
Operating profit		56,484	49,305
Finance income		1,573	275
Finance costs		(9,677)	(8,003)
Finance costs – net	5	(8,104)	(7,728)
Profit before income tax		48,380	41,577
Income tax expenses	6	(12,935)	(8,824)
Profit for the year		35,445	32,753
Profit/(loss) attributable to			
Owners of the Company		35,445	32,773
Non-controlling interests		–	(20)
		35,445	32,753

	<i>Note</i>	Year ended 31 December	
		2019	2018
		<i>RMB'000</i>	<i>RMB'000</i>
Other comprehensive income			
<i>Items that may be reclassified to profit or loss:</i>			
Currency translation differences		<u>1,774</u>	<u>1,417</u>
Other comprehensive income for the year		<u>1,774</u>	<u>1,417</u>
Total comprehensive income for the year attributable to			
Owners of the Company		37,219	34,190
Non-controlling interests		<u>—</u>	<u>(20)</u>
		<u>37,219</u>	<u>34,170</u>
Earnings per share attributable to owners			
of the Company			
– Basic and diluted (RMB)	7	<u>8.2 cents</u>	<u>7.6 cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	As at 31 December	
		2019	2018
		<i>RMB'000</i>	<i>RMB'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		166,301	174,760
Intangible assets		6,750	4,922
Deferred income tax assets		5,446	3,377
Prepayments		47,759	57,197
		<hr/>	<hr/>
		226,256	240,256
		<hr/>	<hr/>
Current assets			
Inventories		65,060	31,212
Trade receivables	9	60,239	88,618
Prepayments and other receivables		55,520	20,960
Restricted cash		1,018	1,000
Cash and cash equivalents		116,629	188,634
		<hr/>	<hr/>
		298,466	330,424
		<hr/>	<hr/>
Total assets		524,722	570,680
		<hr/> <hr/>	<hr/> <hr/>

		As at 31 December	
	Note	2019	2018
		RMB'000	RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital		70	–
Other reserves		268,639	264,479
Retained earnings		32,188	101,702
		300,897	366,181
LIABILITIES			
Non-current liabilities			
Deferred revenue		2,705	3,690
Deferred tax liabilities		2,534	1,570
Lease liabilities		186	1,806
License fee payable		1,854	868
		7,279	7,934
Current liabilities			
Trade and other payables	10	51,144	44,505
Contract liabilities		738	634
Bank and other borrowings	11	142,728	140,189
Lease liabilities		2,546	3,209
License fee payable		2,735	1,883
Current income tax liabilities		16,655	6,145
		216,546	196,565
Total liabilities		223,825	204,499
Total equity and liabilities		524,722	570,680

Notes:

1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 25 October 2019 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company and its subsidiaries are principally engaged in manufacturing and sales of toys (the “**Listing Business**”). Pursuant to a reorganisation (the “**Reorganisation**”) in preparation for the listing (the “**Listing**”) of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Main Board**”) which was completed on 19 December 2019, the Company became the holding company of the other companies now comprising the Group.

The Company’s shares were listed on the Main Board on 18 March 2020 (the “**Listing Date**”).

These consolidated financial statements are presented in Renminbi (“**RMB**”), unless otherwise stated.

These consolidated financial statements have been approved for issue by the Board on 31 March 2020.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of presentation and preparation

(i) Basis of presentation

Immediately prior to and after the Reorganisation, the Listing Business is mainly conducted through Kidztech (Guangdong) Intelligent Technology Co., Ltd. (“**Kidztech Intelligent**”, formerly known as Kidztech Intelligent Technology Co., Ltd.) and its subsidiaries. The Company has not been involved in any other business prior to the Reorganisation and does not meet the definition of a business. The Reorganisation is merely a recapitalisation of the Listing Business with no change in management and the ultimate owners of the Listing Business remain the same. Accordingly, the consolidated financial statements of the Group for the two years presented herein have been presented using the carrying values of the Listing Business, as if the current group structure had been in existence throughout the years.

(ii) *Compliance with HKFRS and HKCO*

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRS**”) and the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622) (“**HKCO**”). In particular, the Group has consistently adopted HKFRS 16 for the years ended 31 December 2019 and 2018.

(iii) *Historical cost convention*

The consolidated financial statements have been prepared under the historical cost convention.

(iv) *New standards and interpretations not yet adopted*

The following new standards, amendments to standards and interpretations have been published but are not mandatory for accounting periods beginning on 1 January 2019 and have not been early adopted by the Group.

		Effective for annual years beginning on or after
Amendments to HKAS 1 and HKAS 8	Disclosure initiative – definition of material	1 January 2020
Amendments to HKFRS 3	Definition of a business	1 January 2020
HKFRS 17	Insurance contracts	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020

Management is in the process of making an assessment of the impact of the above new standards and amendments to standards and considered on a preliminary basis that these new standards and amendment to standards will not result in any substantial changes to the Group’s existing accounting policies and presentation of the financial information.

3 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the chief operating decision-maker (“**CODM**”). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors (“**Executive Directors**”) of the Company.

The Group is principally engaged in manufacturing and sales of toys. Management reviews the operating results of the business as one operating segment to make decisions about resources to be allocated. Therefore, the Executive Directors of the Company regards that there is only one operating segment which is used to make strategic decisions. Revenue and profit before income tax are the measures reported to the Executive Directors for the purpose of resources allocation and performance assessment.

As at 31 December 2019, majority of the Group’s non-current assets were located in the People’s Republic of China (“**PRC**”) (31 December 2018: same).

Analysis of revenue by product type is as follows:

	Year ended 31 December	
	2019	2018
	<i>RMB’000</i>	<i>RMB’000</i>
Smart toys		
– Smart toy vehicles	209,584	218,120
– Smart interactive toys	28,459	19,659
Traditional toys	84,697	34,500
Smart hardware	3,060	6,438
	325,800	278,717
Timing of revenue recognition		
– At a point in time	325,800	278,717

During the year ended 31 December 2019, details of the Group's sales to external customer who accounted for more than 10% of total revenue are set out below (2018: no individual customer accounted for more than 10% of the Group's revenue).

	Year ended 31 December	
	2019	2018
Customer A	18%	Not Applicable*

* *The customer contributed less than 10% of total revenue during the year ended 31 December 2018.*

The revenue from customers by geographic information as determined by destination of delivery is as follows:

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Out of Mainland China	168,370	133,819
Mainland China	157,430	144,898
Total	325,800	278,717

4 EXPENSES BY NATURE

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials and goods used	137,427	125,732
Staff costs (including Directors' emoluments)	50,771	44,888
Depreciation of property, plant and equipment and amortisation expenses of trademark and software	18,221	18,106
Royalty expenses	16,471	13,651
Listing expenses for the Listing	16,365	–
Subcontracting charges	5,150	4,535
Freight charge and transportation expenses	4,765	5,223
Testing and inspection fee	2,864	3,429
Utilities	2,749	2,348
Auditors' remuneration for audit services	2,526	476
Business and other taxes	1,883	2,266
Others	16,394	12,630
	<hr/>	<hr/>
Total cost of sales, selling expenses and administrative expenses	275,586	233,284
	<hr/> <hr/>	<hr/> <hr/>

5 FINANCE COSTS – NET

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Finance income		
– Interest income	1,573	275
Finance costs		
– Interest expenses on bank borrowings	(7,417)	(5,584)
– Interest expenses on other borrowings	(1,351)	(1,522)
– Interest expenses on lease liabilities	(288)	(411)
– Interest expenses on license fee payables	(256)	(170)
– Others	(365)	(316)
	<hr/>	<hr/>
	(9,677)	(8,003)
	<hr/>	<hr/>
	(8,104)	(7,728)
	<hr/> <hr/>	<hr/> <hr/>

6 INCOME TAX EXPENSES

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
– PRC enterprise income tax	10,735	7,739
– Hong Kong profits tax	3,295	1,091
Deferred income tax	(1,095)	(6)
	<u>12,935</u>	<u>8,824</u>

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and, accordingly, is exempted from Cayman Islands income tax. Under the current laws of the British Virgin Islands (“**BVI**”), entities incorporated in BVI are not subject to income tax.

Kidztech Toys Manufacturing Limited (“**Kidztech HK**”), the Company’s operating subsidiary incorporated in Hong Kong, is subject to income tax at the rate of 16.5% on the assessable profits arising in Hong Kong during the year ended 31 December 2019 (2018: 16.5%). For the year ended 31 December 2019, the Group is eligible to nominate one Hong Kong incorporated entity in the Group, which is Kidztech HK, to be taxed at the two tiered profits tax rates, whereby profits tax will be chargeable on the first HKD2,000,000 of assessable profits at 8.25% and assessable profits above this threshold will be subject to a rate of 16.5% (2018: same). Hong Kong profits tax of the other Hong Kong incorporated group entities has been provided for at the rate of 16.5% on the estimated assessable profits.

Pursuant to the PRC Enterprise Income Tax Law (“**EIT Law**”), the EIT rate for domestic enterprises and foreign invested enterprises is 25%. On 9 December 2016, Kidztech Intelligent, the Group’s operating subsidiary in the PRC, was awarded the High and New Technology Enterprise Certificate (the “**HNTE Certificate**”) which is effective for three years commencing on 1 January 2016 with applicable income tax rate being 15% for the years from 2016 to 2018. The HNTE Certificate has expired in 2019 and the applicable tax rate for Kidztech Intelligent for 31 December 2019 was 25%, being the EIT rate for domestic enterprises in the PRC. All the other PRC entities of the Group are subject to EIT at a rate of 25%.

7 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year. In determining the weighted average number of ordinary shares in issue during the year, the capitalisation issue of 353,600,000 shares to the then shareholders of the Company and the 78,000,000 shares issued pursuant to the Reorganisation were deemed to be in issue since 1 January 2018.

	Year ended 31 December	
	2019	2018
Profit attributable to owners of the Company (<i>RMB'000</i>)	35,445	32,773
Weighted average number of ordinary shares in issue	<u>431,600,000</u>	<u>431,600,000</u>
Basic earnings per share (<i>RMB</i>)	<u>8.2 cents</u>	<u>7.6 cents</u>

(b) Diluted

Diluted earnings per share equals basic earnings per share as there were no potential dilutive shares outstanding for the year ended 31 December 2019 (2018: same).

8 DIVIDENDS

No dividend has been declared or paid by the Company since its incorporation and up to the date of this announcement.

Pursuant to the resolution of the shareholders' meeting held on 20 May 2019, dividends of RMB101,400,000 were approved and declared by Kidztech Intelligent to its then shareholders. Such dividends were paid in 2019.

9 TRADE RECEIVABLES

	As at 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	68,724	93,977
Less: provision for impairment	(8,485)	(5,359)
	<u>60,239</u>	<u>88,618</u>

(a) Ageing analysis of trade receivables based on invoice date is as follows:

	As at 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Less than 30 days	36,291	53,787
31 days to 120 days	27,942	35,515
121 days to 1 year	2,283	4,393
1 year to 2 years	2,032	110
More than 2 years	176	172
	<u>68,724</u>	<u>93,977</u>

(b) Trade receivables were denominated in following currencies:

	As at 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
RMB	51,186	85,242
United State dollars (“USD”)	16,981	8,347
Hong Kong dollars (“HKD”)	557	388
	<u>68,724</u>	<u>93,977</u>

(c) The carrying amount of trade receivables approximate their fair value due to their short maturity.

10 TRADE AND OTHER PAYABLES

	As at 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	24,892	21,050
Accrued other expenses	10,666	5,558
Accrued Listing expenses	6,002	–
Payroll payable	4,687	4,065
Value-added-tax and other tax payables	2,224	12,095
Refund liabilities	1,570	1,737
Amounts due to minority shareholders	1,103	–
	51,144	44,505

(a) Ageing analysis of trade payables based on invoice date is as follows:

	As at 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Less than 30 days	4,795	7,847
31 days to 120 days	6,862	5,063
121 days to 1 year	12,514	4,001
1 year to 2 years	595	3,455
More than 2 years	126	684
	24,892	21,050

(b) Trade and other payables were denominated in following currencies:

	As at 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
RMB	28,077	18,259
HKD	8,965	236
USD	7,191	9,850
	44,233	28,345

(c) The carrying amounts of trade and other payables approximate their fair value due to their short maturities.

11 BANK AND OTHER BORROWINGS

	As at 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Bank borrowings – secured	92,500	104,000
Other borrowings – secured (a)	50,228	36,189
	<hr/>	<hr/>
	142,728	140,189
	<hr/>	<hr/>

- (a) Other borrowings include loans from non-bank financial institutions and loan obtained from a state-owned company to Kidztech (Shantou) Information Technology Co., Ltd., a subsidiary of the Group.
- (b) The weighted average effective interest rate as at 31 December 2019 was 6.20% (31 December 2018: 6.17%).
- (c) As at 31 December 2019, certain bank and other borrowings were secured by:
- (i) property, plant and equipment;
 - (ii) restricted cash;
 - (iii) personal guarantees provided by Mr. Yu Huang and Ms. Chen Cheng and minority shareholders.
- (d) Bank and other borrowings were denominated in following currencies:

	As at 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
RMB	142,176	139,331
HKD	552	858
	<hr/>	<hr/>
	142,728	140,189
	<hr/>	<hr/>

12 SUBSEQUENT EVENT

(a) Capitalisation issue

On 18 March 2020, 353,600,000 shares of HKD0.001 each were allotted and issued at par to the then shareholders of the Company in proportion to their then shareholdings as at 13 February 2020 by capitalisation of an amount of HKD353,600 standing to the credit of the share premium account of the Company.

(b) The Listing

The Company's shares were listed on the Main Board on 18 March 2020 by way of placing and public offer of a total 88,400,000 shares at an offer price of HKD1.38 per share. Gross proceeds raised amounted to HKD121,992,000 (before listing expenses).

(c) Adoption of share option scheme

The Group has conditionally adopted a share option scheme on 13 February 2020 under which selected participants (including, among others, full-time employees) may be granted options to subscribe for new shares of the Company. As at the date of this announcement, no share option has been granted under the scheme.

(d) Outbreak of novel coronavirus ("COVID-19")

Since January 2020, the PRC has encountered an outbreak of COVID-19. As a result, certain measures were undertaken by the PRC central government and various provincial or municipal governments including but not limited to implementation of travel restrictions and extension of national holidays. Pending development of such subsequent non-adjusting event, the Group's financial results may be affected, the extent of which could not be estimated as at the date of this announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

The Group has a vision of becoming a smart interactive entertainment product provider. The Group is principally engaged in the design, development, manufacture and sale of high-quality smart toy vehicles, smart interactive toys and traditional toys.

The Group recorded increases in both the revenue and the gross profit for the year ended 31 December 2019.

Revenue

The Group's total revenue increased by approximately 16.9% from approximately RMB278.7 million for the year ended 31 December 2018 to approximately RMB325.8 million for the year ended 31 December 2019. Such increase was primarily due to (i) the increase in sale to one of its major overseas retailer customers by approximately RMB31.4 million; (ii) the increase in sale of its smart interactive toys primarily due to the increase in sale of its co-branded products branded under the brand of a famous toy brand licensor which ranks second in the retail brand of the global toy market in terms of sales revenue in 2018 according to a report prepared by China Insights Industry Consultancy Limited, an independent industry expert, such as electronic piano, walkie-talkie and toy guitar; and (iii) the increase in sale of traditional toys to its customers in the PRC, in particular the wholesalers based in the PRC which principally export and sell toys to overseas wholesalers and retailers and mainly onward export the Group's products to overseas market (the **"PRC Export-Oriented Wholesalers"**).

The PRC continued to be the Group's biggest market in 2019, contributing approximately 48.3% of revenue (amongst such 48.3%, approximately 36.5% of which was indirect sales to overseas made through the PRC Export-Oriented Wholesalers, while approximately 11.8% of which was domestic sales made through the PRC domestic-sale-oriented wholesalers and retail sales in the PRC market). Europe as a whole contributed approximately 18.7%, the North America contributed approximately 25.9%, Asia (excluding the PRC) contributed approximately 3.4%, and approximately 3.8% came from Oceania, South America and Africa.

Analysis of revenue by product type is as follows:

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Smart toys		
– Smart toy vehicles	209,584	218,120
– Smart interactive toys	28,459	19,659
Traditional toys	84,697	34,500
Smart hardware	3,060	6,438
	<u>325,800</u>	<u>278,717</u>

Smart toys

Smart toy vehicles

The Group's smart toy vehicles mainly comprise full function radio controlled toy vehicles, which are manufactured in different scales. During the year ended 31 December 2019, the Group's smart toys vehicles are mostly "kidztech" brand products and co-branded products collectively released by the Company and renowned automobile manufacturers. The Group also manufactures under overseas customers' brands on original equipment manufacturing ("OEM") and original design manufacturing ("ODM") bases.

Smart interactive toys

The Group's smart interactive toys mainly comprise smart interactive playsets, activity toys and musical toys, and some of these toys which play music and contain play features are intended to stimulate the sensory development of children. During the year ended 31 December 2019, most of these toys were sold under either (i) co-branded with popular entertainment characters featured in animated television series or motion pictures or toy brand owner; or (ii) its "kidztech" brand.

Traditional toys

Traditional toys include traditional toy vehicles, traditional educational toys, dolls and other traditional toys such as outdoor and sport as well as infant toys. During the year ended 31 December 2019, the majority of revenue from traditional toys were derived from sale of traditional toy vehicles. Traditional toy vehicles include pull back toy vehicles and inertia toy vehicles which are mainly designed for children aged one to three years or above. During the year ended 31 December 2019, most of these toys were sold under the “kidztech” brand.

Smart hardware

In view of the rapid growth of smart hardware market, leveraging the expertise of the Group in designing and manufacturing high quality radio controlled smart toy vehicles, the Group had in 2018 commenced selling smart hardware, such as Bluetooth speakers, which are sold under its “kidztech” brand. During the year ended 31 December 2019, most of the smart hardware products continued to be sold under the “kidztech” brand.

Brands

The Group’s products are (i) branded with its “kidztech” brand; (ii) co-branded with renowned automobile manufacturers, popular entertainment characters featured in animated television series or motion pictures or toy brand owner; or (iii) branded under its overseas customers brands, which mainly represent the products manufactured by the Group on ODM and OEM bases and the products sold to its customers branded under their respective brands.

During the year ended 31 December 2019, approximately 46.0% of revenue was attributable to products under the “kidztech” brand (2018: approximately 51.8%), approximately 45.3% of revenue was attributable to products under co-brand (2018: approximately 40.1%) and approximately 8.7% of revenue was attributable to products under overseas customers brands (2018: approximately 8.1%).

Gross profit and gross profit margin

The Group's gross profit increased from approximately RMB95.6 million for the year ended 31 December 2018 to approximately RMB122.2 million for the year ended 31 December 2019, representing an increase of approximately 27.8%. The Group's gross profit margin increased by approximately 3.2% from approximately 34.3% for the year ended 31 December 2018 to approximately 37.5% for the year ended 31 December 2019. The increase in the gross profit margin was primarily due to (i) the appreciation of USD against RMB as the Group usually billed its overseas customers in USD; and (ii) the increase in the overall sales to overseas retailer customers and overseas wholesaler customers with higher profit margin.

Selling expenses

The Group's selling expenses increased by approximately 20.4% from approximately RMB16.6 million for the year ended 31 December 2018 to approximately RMB20.0 million for the year ended 31 December 2019. The increase was primarily due to (i) the increase in staff costs of approximately RMB1.5 million due to increase in number of staff and staff remuneration; and (ii) the increase in customs fee of approximately RMB2.2 million due to the increase in sale of the Group's products to the overseas retailer customers.

Administrative expenses

The Group's administrative expenses increased by approximately 54.8% from approximately RMB33.6 million for the year ended 31 December 2018 to approximately RMB52.0 million for the year ended 31 December 2019. Such increase was mainly attributable to the incurrence of Listing expenses of approximately RMB16.4 million during the year ended 31 December 2019 for the preparation of the Listing.

Taxation

Income tax expenses increased by approximately 46.6% to approximately RMB12.9 million for the year ended 31 December 2019 from approximately RMB8.8 million for the year ended 31 December 2018. Such increase was due to (i) the increase in profit before tax before Listing expenses; and (ii) the increase in the applicable enterprise income tax rate of Kidztech Intelligent, an indirectly wholly-owned subsidiary of the Company, from 15% for the year ended 31 December 2018 to 25% for the year ended 31 December 2019 due to expiry of the HNTE Certificate in 2019.

The Group's effective tax rate increased from approximately 21.2% for the year ended 31 December 2018 to approximately 26.7% for the year ended 31 December 2019, which was mainly due to (i) the increase in expenses incurred in relation to the preparation for the Listing which was not deductible for tax purpose; and (ii) the increase in the applicable enterprise income tax rate of Kidztech Intelligent from 15% to 25% as discussed hereinabove.

Profit for the year

The Group's profit (before Listing expenses) increased by approximately 58.2% from approximately RMB32.8 million for the year ended 31 December 2018 to approximately RMB51.8 million for the year ended 31 December 2019; while its profit (after Listing expenses) increased by approximately 8.2% from approximately RMB32.8 million for the year ended 31 December 2018 to approximately RMB35.4 million for the year ended 31 December 2019.

The Group's net profit margin (before Listing expenses) increased from approximately 11.8% for the year ended 31 December 2018 to approximately 15.9% for the year ended 31 December 2019; while its net profit margin (after Listing expenses) decreased from approximately 11.8% for the year ended 31 December 2018 to approximately 10.9% for the year ended 31 December 2019.

Liquidity and financial resources

The net debt to total capital ratio, which represents total borrowings less cash and cash equivalents divided by total capital as at the end of the financial year and multiplied by 100%, was approximately 8.5% as at 31 December 2019 (31 December 2018: not applicable as the Group maintained at net cash position).

The current ratio, which is calculated based on the total current assets at the respective dates divided by the total current liabilities at the respective dates, was approximately 1.4 as at 31 December 2019 (31 December 2018: approximately 1.7); whereas the quick ratio, which is calculated based on the total current assets (excluding inventories) at the respective dates divided by the total current liabilities at the respective dates, was approximately 1.1 as at 31 December 2019 (31 December 2018: approximately 1.5).

Working capital

The average inventory turnover period of the Group was approximately 86.3 days for the year ended 31 December 2019 (2018: approximately 63.1 days). The increase was primarily due to the addition in inventory reserve and preparation for future growing orders as anticipated by the Group.

The Group's trade receivables decreased from approximately RMB88.6 million as at 31 December 2018 to approximately RMB60.2 million as at 31 December 2019, primarily due to (i) the sales from overseas customers (with shorter credit term) increased; and (ii) the Group spent more effort on the collection of trade receivables and achieved satisfying results. The Group's average turnover days of trade receivables decreased from approximately 98.7 days for the year ended 31 December 2018 to approximately 83.4 days for the year ended 31 December 2019.

The Group's trade and other payables increased by approximately RMB6.6 million or approximately 14.9% from approximately RMB44.5 million as at 31 December 2018 to approximately RMB51.1 million as at 31 December 2019. The increase was mainly due to an increase in accrued Listing expenses payable. The Group's average trade payable turnover days increased from approximately 34.6 days for the year ended 31 December 2018 to approximately 41.2 days for the year ended 31 December 2019, mainly due to the increase in purchases of raw materials for the year ended 31 December 2019.

Significant investments, material acquisitions and disposal of subsidiaries

Save for the disposal of Shantou Yudilong Plastic Co., Ltd.[#] (汕頭市裕迪隆塑膠有限公司), at an aggregate consideration of RMB33,000,000 in August 2019 as disclosed in the prospectus of the Company dated 28 February 2020 (the “**Prospectus**”), the Group did not have any significant investments, material acquisitions and disposal of subsidiaries during the year ended 31 December 2019.

Pledge of assets

As at 31 December 2019, the bank and other borrowings of the Group were secured by property, plant and equipment and restricted cash.

Contingent liabilities

The Group did not have any significant contingent liability as at 31 December 2019 (2018: Nil).

Capital commitments

As at 31 December 2019, the Group had an aggregate capital commitment of approximately RMB59.9 million (2018: approximately RMB43.2 million).

Foreign exchange exposure

The Group's operating subsidiary incorporated in Hong Kong operates with most transactions being settled in USD, except for certain transactions which are denominated in HKD or other currencies. The functional currency of this subsidiary is USD. The Group's operating subsidiaries incorporated in the PRC operate in the PRC and their functional currency is RMB. As at 31 December 2019, foreign exchange risk arose mainly from the certain intra-group transactions and balances of the operating subsidiaries in the PRC which are denominated in USD and the accrual of the Listing expenses which are denominated in HKD. The Directors consider that no significant foreign exchange risk exists for the Group.

EVENTS OCCURRED SINCE THE END OF THE YEAR ENDED 31 DECEMBER 2019

For details of important events of the Group which have occurred since the end of the year ended 31 December 2019, please refer to note 12 to the consolidated financial statements as set out in this announcement.

LISTING AND USE OF PROCEEDS

The Company's shares (the "**Shares**") were successfully listed on the Main Board on the Listing Date. The net proceeds (after deducting related underwriting fees and commissions and expenses payable in connection with the global offering) raised by the Company from the global offering were approximately HK\$81.2 million (based on the final offer price of HK\$1.38 per offer Share the "**Offer Price**"). As disclosed in the section headed "Future plans and use of proceeds" of the Prospectus, the intended use of the net proceeds are set out as follows:

- (a) approximately 70.8%, or HK\$57.5 million, will be used to fund the planned expansion of the new production plant, including, among others, construction of the new production plant and acquisition of more machinery and equipment for manufacturing toy products and product design and development;
- (b) approximately 19.2%, or HK\$15.6 million, will be used to maintain and strengthen its relationships with existing customers, in particular overseas customers, expand and diversify its customer base through, among others, expanding its sales and marketing departments in both Hong Kong and the PRC, and acquire or invest in downstream companies; and
- (c) approximately 10.0%, or HK\$8.1 million, will be used for general replenishment of working capital and other general corporate purpose.

If the Over-allotment Option (as defined in the Prospectus) is exercised in full (on or prior to Friday, 3 April 2020), 13,260,000 additional Shares will be issued by the Company at the Offer Price, and additional net proceeds of approximately HK\$18.3 million will be raised. As at the date of this announcement, the Over-allotment Option has not been exercised. In the event the Over-allotment Option is exercised, an announcement will be made on the websites of the Company and the Stock Exchange at www.kidztech.net and www.hkexnews.hk, respectively.

As at the date of this announcement, there were no changes of the use of net proceeds from those disclosed in the Prospectus. The Group will gradually utilize the net proceeds in accordance with the intended purposes as disclosed in the Prospectus.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group had 821 (2018: 806) full-time employees, of which, 22 of them were in Hong Kong and the rest of them were stationed in Shantou and Shenzhen, the PRC.

The remuneration packages offered by the Group to its employees, including salaries, accidental insurance and allowances, depending on their job nature. Bonuses are generally discretionary and based in part on employee performance and in part on the overall performance of the Group's business.

OUTLOOK

China and the United States have been engaged in trade negotiations since 2018. Both countries have been apparent in trying to seek a compromise, resulting in a slight easing of tension between the countries. Despite the recent disruptions caused by the outbreak of COVID-19, the Group has resumed its operation in the PRC since 10 February 2020, but the Group's operation in the PRC is subject to further development of the outbreak of COVID-19 and government advice or restrictions. Accordingly, it is too early to gauge whether there will be an impact of any significance on the Group's operation at this stage.

The Directors will continue to assess the impact of the outbreak of COVID-19 on the Group's operation and financial performance and closely monitor the Group's exposure to the risks and uncertainties in connection with the epidemic. The Group will take appropriate measures as necessary and inform the Shareholders and potential investors of the Company as and when necessary.

On the other hand, with the aim of further developing its business and continuing its growth and also taking into account the development of the current epidemic situation, the Group will continue to implement the following strategies:

- continue to prioritise and focus on overseas market by (i) maintaining and strengthening relationship with its existing direct overseas customers; and (ii) expanding its customer base;
- continue to strengthen, expand and diversify its customer base by focusing on (i) the PRC Export-Oriented Wholesalers; and (ii) the PRC retailers;
- diversify its product offerings through continuous development of new products and global licensing strategy; and
- expand its production capacity and improve its production efficiency.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Shares were first listed on the Main Board on the Listing Date. Neither the Company nor any member of the Group has purchased, sold or redeemed any of the Shares during the year ended 31 December 2019 and the period from the Listing Date and up to the date of this announcement (the “**Period**”).

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019.

CORPORATE GOVERNANCE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability of the Company. As the Shares were not yet listed on the Main Board until the Listing Date, the Corporate Governance Code in Appendix 14 (the “**CG Code**”) to the Rules (the “**Listing Rules**”) Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) was not applicable to the Company during the period under review. The Company has applied the principles and complied with all applicable code provisions of the CG Code during the Period, save and except the deviation as follows:

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Yu Huang is currently the chairman of the Board and the chief executive officer of the Group. Mr. Yu Huang has been responsible for the overall management of the Group since the establishment of the Group. The Board believes that the current structure enables us to make and implement business decision swiftly and effectively which promotes the Group's development in line with other strategies and business direction. The Board considers that the balance of power and authority, accountability and independent decision-making under the present arrangement will not be impaired because of the diverse background and experience of the executive Directors, non-executive Director and independent non-executive Directors. Further, the audit committee of the Company (the “**Audit Committee**”), which consists of independent non-executive Directors, has free and direct access to the Company's external auditors and independent professional advisers when it considers necessary. Therefore, the Directors consider that the deviation from code provision A.2.1 of the CG Code is appropriate in such circumstance. In order to maintain good corporate governance and to fully comply with code provision A.2.1 of the CG Code, the Board will regularly review the need to appoint different individuals to perform the roles of chairman of the Board and chief executive separately.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the “Model Code for Securities Transactions by Directors of Listed Issuer” (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its code of conduct regarding dealings in the securities of the Company by the Directors and the Group's senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Group or the Company's securities.

Having made specific enquiry, all Directors confirmed that they have complied with the Model Code during the Period. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Group during the Period.

AUDIT COMMITTEE AND REVIEW OF ANNUAL RESULTS

The Company has established the Audit Committee in compliance with Rule 3.21 of the Listing Rules and the CG Code. The Audit Committee has reviewed with the management of the Company these annual results and the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial statements matters, including the review of the consolidated financial statements of the Group for the year ended 31 December 2019.

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kidztech.net). The annual report of the Company for the year ended 31 December 2019 will be despatched to the Shareholders and published on the aforesaid websites in due course.

By order of the Board
Kidztech Holdings Limited
Yu Huang
Chairman

Shantou, 31 March 2020

As at the date of this announcement, the Board comprises Mr. Yu Huang, Mr. Pui Lik Leung Kenny and Mr. Ni Yanlong as executive Directors, Ms. Zheng Jingyun as non-executive Director, and Mr. He Weidong, Ms. Liu Man and Ms. Zhao Weiwei as independent non-executive Directors.

For identification purpose only