

TARGET

Intelligence Report

VOLUME XXII No. 67

T U E S D A Y

March 31, 2020

KIDZTECH HOLDINGS LTD:

THE INEVITABILITY OF LIFE'S UPS AND DOWNS

In view of the fact that Kidztech Holdings Ltd () (Code: 6918, Main Board, The Stock Exchange of Hongkong Ltd) has only been in business for the past 11 years, it has not done too badly, at all.

But one of the most-furious of financial tsunamis, seen for many a decade, is clearly fast approaching, and, in its wake, Management of this toy-manufacturing Company is bound to experience this wave's power.

On Thursday, March 19, 2020, in an official announcement to shareholders, Mr Yu Huang (), the Chairman and Chief Executive Officer of the Company, stated that on Tuesday, March 31, 2020 (today), there would be a Board of Directors' Meeting, at which time, the Audited Consolidated Financial Statements of the Company and its subsidiaries would be tabled and carefully considered with regard to the results of the Financial Year, ended December 31, 2019.

In addition, the Board of Directors is expected to consider '*the recommendation on the payment of a final dividend, if any.*'

On the assumption that the Board of Directors is not completely balmy, there should be no recommendation of the payment of a dividend with regard to the 2019 Financial Year and, with regard to the 2019-Year's financial results, they are quite likely to be, in a word, '*flat*', relative to the Net Profit Attributable to

Shareholders in respect of the 2018-Year (about 32.75 million renminbi, that is approximately \$HK35,662,130.00).

But there are much more worrying concerns, blowing in from the winds of circumstance, as one notes on scanning the Global Offering Prospectus of this Company.

The Initial Public Offering (IPO) Of Kidztech Holdings Ltd

Management of Kidztech Holdings Ltd was desirous of offloading 88.40 million, \$HK0.001- Shares at the Indicative Offer Price Per Share, ranging from a low of \$HK1.17 to a high of \$HK1.47.

Investors of the **Hongkong Special Administrative Region (HKSAR)** of the **People's Republic of China (PRC)** were given the opportunity to subscribe to 8.84 million Offer Shares (the HKSAR Offer Shares tranche) and International Investors – Institutional Investors, Professional Investors and select, Well-Heeled Investors, along with their corporate entities in which this class of investor has equity control – were induced to subscribe to 79.56 million Offer Shares (the International Offer Shares tranche).

On Tuesday, March 17, 2020, in an Announcement as to the Offer Price Per Share and the Allotment Results, Management stated that the Offer Price Per Share had been struck at \$HK1.38 and that the Company, anticipated netting about \$HK81.20 million from the Global Offering.

With regard to the HKSAR Offer Shares tranche, it was stated in this Announcement that Management had received 8,367 valid applications, representing 180.34 million Offer Shares, equivalent to 20.40 times the 8.84 million Offer Shares, initially available for subscription under this tranche.

In respect of the International Offer Shares tranche, one was informed in this Announcement that it had been '*slightly over-subscribed*' by about 1.05 times the 79.56 million International Offer Shares, initially available under this tranche.

At Page 11 of the Announcement, one was informed as to how Management intended to utilise the net proceeds of the Global Offering:

- Approximately, \$HK57.50 million, that is about 70.80 percent of the net proceeds, '*will be used to fund the Planned Expansion, 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;*'

- Approximately, \$HK15.60 million, that is about 19.20 percent of the net proceeds, ‘*will be used to maintain and strengthen the Group’s relationship with existing customers, in particular overseas customers, expand and diversify the Group’s customer base through, among others, expanding the Group’s sales and marketing departments in both Hong Kong and the PRC, and acquire or invest in downstream companies;*’ and,
- Approximately, \$HK8.10 million, that is about 10.00 percent of the net proceeds, ‘*will be used for general replenishment of working capital and other general corporate purposes.*’

The History And Business Of Kidztech Holdings Ltd

The history of Kidztech Holdings Ltd can be traced back to the incorporation in the PRC, proper, being separate and distinct from the HKSAR of the PRC, of Shantou Chenghai Jinjun Toys Company Ltd ().

That event took place on or about June 19, 2009.

Mr Yu Huang (), together with his wife, Ms Chen Cheng (), selected as their base of operations, Chenghai, Shantou, then considered as being the toy capital of the PRC, proper, according to Page 128 of the Global Offering Prospectus.

About two years later, on July 18, 2011, Mr Yu Huang, Ms Chen Cheng and Mr Kenny Pui Lik Leung () incorporated Kidztech Toys Manufacturing Ltd () in the HKSAR.

The object of that exercise was to use this newly incorporated company for the exportation of toys to Europe and The United States of America.

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