

MIKO INTERNATIONAL HOLDINGS LIMITED

米格國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1247



Sole Global Coordinator



Joint Sponsors



Joint Bookrunners and Joint Lead Managers



IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



MIKO INTERNATIONAL HOLDINGS LIMITED 米格國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Total number of Offer Shares under the Global Offering	:	160,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Public Offer Shares	:	16,000,000 Shares (subject to adjustment)
Number of International Placing Shares	:	144,000,000 Shares (subject to the Over-allotment Option and adjustment)
Maximum Offer Price	:	HK\$2.32 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	:	HK\$0.01 per Share
Stock code	:	1247

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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or around January 7, 2014 or such later time as may be agreed between the parties, but in any event, no later than January 13, 2014. The Offer Price will be not more than HK\$2.32 per Share and is currently expected to be not less than HK\$1.60 per Share, unless otherwise announced. Investors applying for the Hong Kong Public Offer Shares must pay, on application, the maximum Offer price of HK\$2.32 for each Offer Share together with brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% subject to refund if the Offer Price is lower than HK\$2.32.

The Joint Bookrunners (for themselves and on behalf of the Underwriters), may, with the consent of our Company, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of such reduction will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.redkids.com as soon as practicable but in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

If, for any reason, the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price by January 13, 2014, the Global Offering will not become unconditional and will lapse immediately.

Prior to making an investment decision, prospective investors should carefully consider all of the information set out in this prospectus, in particular, the risk factors set out in the section headed "Risk Factors".

Prospective investors of the Hong Kong Public Offer Shares should note the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe, and to procure subscribers to subscribe for, the Hong Kong Public Offer Shares, are subject to termination by the Joint Bookrunners (for themselves and on behalf of the Underwriters) if certain events shall occur prior to 8:00 am (Hong Kong time) on the day on which dealing in the Shares first commence on the Stock Exchange. Further details of the terms of such provisions are set out in the section headed "Underwriting" in this prospectus. The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, or to, or for the account or benefit of U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable U.S. state securities laws. The Offer Shares may be offered, sold or delivered in offshore transactions outside the United States in reliance on Regulation S under the U.S. Securities Act and the applicable laws of each jurisdiction where those offers and sale occur.

December 31, 2013

EXPECTED TIMETABLE^(NOTE 1)

The Company will issue an announcement in Hong Kong to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) if there is any change in the following expected timetable of the Hong Kong Public Offering.

Latest time to complete electronic applications under White Form eIPO service through the designated website at www.eipo.com.hk (note 4)	11:30 a.m. on Tuesday, January 7, 2014
Application lists for the Hong Kong Public Offering open (note 2)	11:45 a.m. on Tuesday, January 7, 2014
Latest time for lodging WHITE and YELLOW Application Forms and giving electronic application instructions to HKSCC (note 3)	12:00 noon on Tuesday, January 7, 2014
Latest time to complete payments for White Form eIPO applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Tuesday, January 7, 2014
Application lists close (note 2)	12:00 noon on Tuesday, January 7, 2014
Expected Price Determination Date (note 6)	Tuesday, January 7, 2014
Announcement of the Offer Price, the indications of the level of interest in the International Placing, the level of applications in the Hong Kong Public Offering, and the basis of allocation of the Hong Kong Public Offer Shares to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and at the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.redkids.com on or before (note 7)	Tuesday, January 14, 2014
Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate to be available through a variety of channels. (See "How to apply for Hong Kong Public Offer Shares — Publication of results") from	Tuesday, January 14, 2014
Results of allocations in the Hong Kong Public Offering will be available at www.iporesults.com.hk with a "search by ID function"	Tuesday, January 14, 2014
Despatch of share certificates in respect of wholly or partially successful applications pursuant to the Public Offering on or before (notes 5 & 8)	Tuesday, January 14, 2014
Despatch of White Form e-Refund payment instructions and/or refund cheques in respect of wholly successful (where applicable) or wholly or partially unsuccessful applications on or before (notes 3, 8 to 11)	Tuesday, January 14, 2014
Dealings in Shares on the Main Board of the Stock Exchange to commence on	9:00 a.m. on Wednesday, January 15, 2014

Notes:

- (1) All times refer to Hong Kong local time. Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering".

EXPECTED TIMETABLE^(NOTE 1)

- (2) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, January 7, 2014, the application lists will not open and close on that day. Further information is set out in “How to Apply for Hong Kong Public Offer Shares — Effect of bad weather conditions on the opening of the application lists”. If the application lists do not open and close on Tuesday, January 7, 2014, the dates mentioned in this section headed “Expected Timetable” may be affected. A press announcement will be made by us in such event.
- (3) Applicants who apply for Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to “How to Apply for Hong Kong Public Offer Shares — Applying by giving electronic application instructions to HKSCC via CCASS” for details.
- (4) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (5) share certificates for the Hong Kong Public Offer Shares will become valid certificates of title at 8:00 a.m. on Thursday, January 15, 2014, provided that (i) the Global Offering has become unconditional in all respects; and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details before the receipt of share certificates or before the share certificates becoming valid certificates do so entirely at their own risk.
- (6) The Offer Price is expected to be determined by Tuesday, January 7, 2014, but in any event, the expected time for determination of the Offer Price will not be later than Monday, January 13, 2014. If, for any reason, the Offer Price is not agreed between the Joint Bookrunners, on behalf of the Underwriters, and our Company by Monday, January 13, 2014, the Global Offering will not proceed and will lapse.
- (7) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may lead to delay in encashment of, or may invalidate, the refund cheque.
- (8) Applicants who apply on **WHITE** Application Forms for 1,000,000 Hong Kong Public Offer Shares or more under the Hong Kong Public Offering and have provided all required information may collect any refund cheque(s) and/or share certificate(s) in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, January 14, 2014. Applicants being individuals who are

EXPECTED TIMETABLE^(NOTE 1)

applying for 1,000,000 Hong Kong Public Offer Shares or more and opt for personal collection must not authorize any other person to make collection on their behalf. Applicants being corporations who are applying for 1,000,000 Hong Kong Public Offer Shares or more and opt for personal collection must attend by their authorized representatives bearing letters of authorization from their corporations stamped with the corporations' chop. Identification and (where applicable) authorization documents acceptable to our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, must be produced at the time of collection.

- (9) Applicants who apply on **YELLOW** Application Forms for 1,000,000 Hong Kong Public Offer Shares or more under the Hong Kong Public Offering may collect their refund cheque(s), where applicable, in person but may not elect to collect their share certificate(s), which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheque(s) for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants specified in note (8) above.
- (10) Applicants who apply for Public Offer via **White Form eIPO** should refer to the section headed "How to Apply for Hong Kong Public Offer Shares — Applying through White Form eIPO".
- (11) Uncollected share certificate(s) and refund cheque(s) will be despatched by ordinary post at the applicants' own risk to the addresses specified on the relevant applications. Further details are set out in the section headed "How to Apply for Hong Kong Public Offer Shares — Despatch/Collection of Share Certificates and Refund Monies" and "Refund of Application Monies".

For details of the structure of the Global Offering, including the conditions thereof, please refer to the section headed "Structure of the Global Offering".

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by Miko International Holdings Limited solely in connection with the Hong Kong Public Offering and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Public Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Our Company has not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by our Company, the Sole Global Coordinator, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of their respective directors, or any other person involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. Since it is a summary, it does not contain all the information that may be important to you. You should read the prospectus in its entirety before you decide to invest in the Offer Shares.

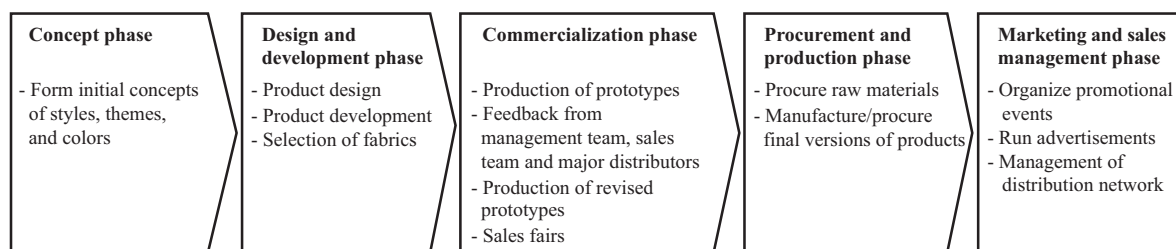
There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

Our Business

We are a leading mid-to-high end children’s apparel brand in China. Our “redkids” brand is ranked second among mid-to-high end children’s apparel brands in China based on retail revenue for the year ended December 31, 2012, according to Frost & Sullivan. We accounted for 4.3% of the mid-to-high end children’s apparel market in China and 1.2% of the total children’s apparel market in China, both in terms of retail revenue for the year ended December 31, 2012, according to Frost & Sullivan. We believe that our success in building our “redkids” brand is attributable to our ability to produce high-quality, functional and comfortable products that reflect the latest market trends.

The following diagram illustrates our business model:



OUR COMPETITIVE STRENGTHS

We believe that our success and potential for future growth are attributable to the following competitive strengths:

- We are a leading mid-to-high end children’s apparel brand in China and well-positioned to capture opportunities in China’s fast-growing children’s apparel market
- We have an established distribution network with strategic geographical coverage
- Our diversified sales platform enables us to serve a broad customer base and to meet growing and different customer demands
- Our strong capabilities in design and product development enable us to respond to changing market trends in a timely manner
- We have a stable and experienced management team with a proven track record

SUMMARY

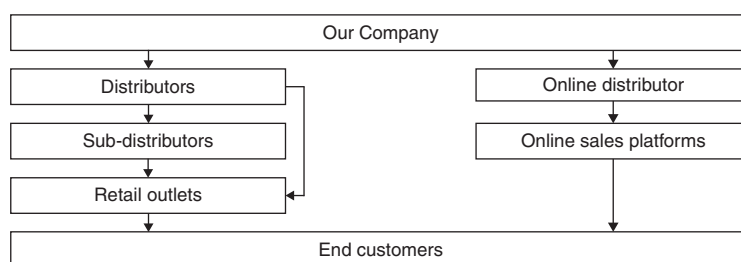
OUR BUSINESS STRATEGIES

We intend to further strengthen our position as a leading designer, manufacturer and retailer of mid-to-high end children's apparel in China. We plan to achieve our goals by pursuing the following principal strategies:

- Establish self-operated retail outlets and continue to expand our distribution network
- Further promote our “redkids” brand and enhance our marketing and promotional strategies
- Continue to develop online sales
- Implement management information systems to manage our operations more effectively
- Further strengthen our design and research and development capabilities
- Continue to expand our product offerings and pursue strategic alliances and acquisitions

OUR SALES AND DISTRIBUTION

The following chart illustrates our current distribution model:



We sell substantially all of our products to distributors on a wholesale basis, who in turn sell our products to end customers through retail outlets owned by them or their sub-distributors or through online sales platforms. We recognize revenue upon delivery of our products to our distributors. We discuss with distributors and agree on their annual purchase target based on their sales capabilities and the geographical areas granted to them. We hold sales fairs twice a year to showcase our product collections for the upcoming season and our distributors place orders at these sales fairs. Our distributors do not have the right to return our products except in the case of product defects. Although our agreements with distributors generally require them to pay in full for our products upon delivery, we grant credit periods on a case-by-case basis, usually in instances when we believe that the extension of liquidity to our distributors would support them in developing their business with us. We grant credit periods of up to 90 days to our distributors with good credit history and we generally do not allow credit periods over 90 days.

We maintain effective management control over our distributors. We set operating guidelines for our distributors and provide regular training, guidance and support to them. We require our distributors to obtain our prior approval before they open any new retail outlets. We are closely involved in the design and decoration of each retail outlet to ensure that the layout and appearance reflect our brand culture and conform to our guidelines. We do not allow retail outlets under our brand to sell products that directly compete with our own products and we have a system of monitoring and preventing violations. Our distributors are given exclusivity over the region in which it operates.

SUMMARY

Our distributors and their sub-distributors have established a wide network of retail outlets in the PRC for our products. As of December 31, 2010, 2011 and 2012 and June 30, 2013, we had 26, 27, 24 and 24 distributors who, together with their sub-distributors, operated a total of 476, 560, 594 and 582 retail outlets, respectively. As of June 30, 2013, our retail network covered 24 provinces and municipalities in the PRC. During the Track Record Period, we strategically prioritized establishing retail outlets under our brand in third- and fourth-tier cities which, according to the Frost & Sullivan Report, experienced and will continue to experience rapid growth in the market size of children's apparel and which have relatively less competition from international and top-end Chinese children's apparel brands.

INVENTORY CONTROL

We closely monitor inventories of our distributors, including inventory levels, inventory age and inventory composition. We conduct monthly visits of retail outlets operated by our major distributors, including our top ten distributors measured by sales revenue during the Track Record Period, and their sub-distributors and we require our distributors to submit monthly inventory reports. Sales to our top ten distributors accounted for 58.0%, 55.3%, 57.8% and 62.8% of our turnover for the years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013, respectively. For our other distributors and the sub-distributors engaged by them, we conduct the same procedures on a quarterly basis and we require the distributors to submit quarterly inventory reports. The retail outlets we visit are selected randomly as we believe random sampling would eliminate sampling bias and thus enhance the accuracy of the sales and inventory data collected. We also conduct spot checks and physical stock counts on the inventory level of our distributors. In addition, we regularly communicate with the management of department stores on the sales performance of department store concessions under our "redkids" brand to confirm the accuracy of our sales data for such distributors.

ONLINE SALES BUSINESS

We sell a portion of our products to a designated online distributor, Red Kids E-commerce, which purchases products from us on a wholesale basis before selling them to end customers through online sales platforms such as Taobao, VIPShop, and V+. Under our distribution agreement with Red Kids E-commerce, we recognize revenue when our products are delivered to Red Kids E-commerce. Through collaboration with our designated online distributor and owners of online sales platforms, our online customer base expanded rapidly and sales to our online distributor increased significantly during the Track Record Period. Our sales to Red Kids E-commerce increased significantly from RMB0.8 million for the year ended December 31, 2010 to RMB29.8 million for the year ended December 31, 2011 and further to RMB87.8 million for the year ended December 31, 2012, and our sales to Red Kids E-commerce increased from RMB24.5 million for the six months ended June 30, 2012 to RMB37.1 million for the six months ended June 30, 2013. For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our sales to Red Kids E-commerce represented 0.2%, 7.6%, 16.9% and 14.7% of our turnover for the respective period. Mr. Ding Peiyuan, one of our executive directors, and his wife, Ms. She Xuefen, had owned 60% and 40% of Red Kids E-commerce, respectively, prior to July 25, 2012. Since July 25, 2012 and up to the Latest Practicable Date Red, Kids E-commerce had been owned by Independent Third Parties.

SUMMARY

ESTABLISHMENT OF SELF-OPERATED RETAIL OUTLETS

We plan to establish self-operated retail outlets in prime locations of selected regions which we believe have high sales growth potential and to gradually increase the proportion of our self-operated retail outlets. We intend to use our self-operated retail outlets as model stores to enhance our brand recognition, demonstrate our standards for store appearance and provide guidance to our distributors in brand promotion and retail management. We currently expect to establish no more than 50 self-operated retail outlets by the end of 2014. We believe it is appropriate to pursue the strategy of establishing self-operated retail outlets because (i) we have had years of experience in building our sales and distributor network in the PRC; (ii) we would have a more comprehensive retail coverage with the establishment of self-operated retail outlets; (iii) we expect our overall gross profit margin to improve through the establishment of our self-operated retail outlets; and (iv) as a brand management company, it is essential that we understand the latest changes in market preferences and collect first-hand feedback from end customers through our self-operated retail outlets in order to continue to improve our product designs and further enhance our marketing plans.

PRICING OF OUR PRODUCTS

We review our retail pricing strategy regularly and make adjustments based on the following factors: (i) production costs and procurement costs of our products; (ii) historical sales data of our products; (iii) the characteristics of our products; (iv) the expected profit margin of each individual product; (v) the prices of our competitors' products; and (vi) the degree of saturation of the current market, anticipated market trends and expected changes of demand from end customers.

The retail price range is typically determined by our headquarters. All of our distributors are required to strictly follow our standardized nationwide retail pricing and discount policy pursuant to the terms of the distribution agreements entered into by us and our distributors. Our products are sold to our distributors at an annual pre-determined discount to suggested retail prices.

OUR DESIGN, RESEARCH AND DEVELOPMENT

We have strong capabilities in design and product development, which enable us to quickly respond to market developments and changing consumer preferences. As of June 30, 2013, our design and research and development team comprised of 20 designers located in our Shanghai design center. Our designers gather information on latest market trends and consumer preferences through various sources, including market research, international fashion shows as well as discussions with our major distributors and our OEMs. In addition, we involve our major distributors in our product design and development process to take advantage of their knowledge of market trends and consumer preferences, which helps ensure that our products cater to the latest consumer trends and preferences in children's apparel and accessories. We introduced 328, 385 and 552 SKUs, respectively, for the three years ended December 31, 2010, 2011 and 2012 and 223 and 368 SKUs, respectively, for the six months ended June 30, 2012 and 2013. We believe our product design and research and development team has a proven track record and possesses the requisite expertise and experience to identify and respond to children's apparel trends in China.

Our design and research and development team also coordinates closely with our raw material suppliers, production team and OEMs during our design and production process.

SUMMARY

Commencing at the initial stages of our product design process, we seek feedback on the production viability of our products from our raw material suppliers, production team and OEMs. As a result, we believe that we have been able to transform product concepts into commercially viable products efficiently and effectively.

PRODUCTION, OUTSOURCING AND PROCUREMENT

During the Track Record Period, we manufactured a portion of our products at our production facilities in Quanzhou, Fujian Province and outsourced the remaining products to OEMs. For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, the proportion of our products that were manufactured by our OEMs continued to increase, accounting for approximately 14.6%, 40.2%, 50.1% and 68.1% of our total cost of sales, respectively. Our purchases from OEMs increased significantly during the Track Record Period because we made the strategic decision to focus our resources and management's attention on aspects other than manufacturing that we believe contribute more value to our business, such as brand management and sales and marketing. As a result, we did not expand our production capacity as our sales volume increased; instead, we increased the proportion of outsourced production. All of our OEMs are Independent Third Parties. We have adopted quality control measures to ensure the quality of our products.

In the future, we intend to continue to increase the proportion of outsourced production to OEMs. We plan to utilize our production know-how accumulated through our years of experience as an OEM service provider to international apparel brands to identify and collaborate with qualified OEMs and raw material suppliers. In addition, through the hiring of individuals who are knowledgeable about the development and production process of particular categories of children's apparel, we seek to identify quality OEMs and raw material suppliers in different regions that are cost-effective and with whom we could collaborate on the research and development of particular categories of children's apparel.

OUR OEM BUSINESS

We manufacture apparel for domestic and international brands on an OEM basis at our production facility in Quanzhou, Fujian province. Our turnover from our OEM services accounted for 4.3%, 2.4%, 0.5% and 0.3%, respectively, of our total turnover for the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013. Our turnover derived from OEM services decreased over the Track Record Period as we continued to shift our focus to the development and sale of products under our own "redkids" brand.

QUALITY CONTROL INCIDENT

A batch of 9,740 pairs of our deep-blue children's jeans (Product Number: RQF115284) ("Product One"), which was produced by one of our OEMs, had aromatic amine levels that exceeded the aromatic amine safety threshold under National General Safety Technical Code for Textile Products (GB18401-2010). China Central Television ("CCTV") broadcasted this incident on May 30, 2013. The Beijing Consumer Association, or BCA, published on its official website that our products contained aromatic amine exceeding relevant national standards on May 31, 2013. Our Directors are of the view that the broadcast on CCTV and publication on BCA did not cause adverse effect on our business or product reputation as there has been no interruption in our business operations since the publication of this incident and our sales continued to grow for the four months ended October 31, 2013. Please see "Business — Quality Control — Quality Control Incidents — First Quality Control Incident" for more details regarding this quality control incident.

SUMMARY

RISK FACTORS

There are certain risks involved in our operations, some of which are beyond our control. These risks can be broadly categorized into: (i) risks relating to our business and our industry; (ii) risks relating to conducting business in China; and (iii) risks relating to the Global Offering and our Shares. These risk factors are further described in the section entitled “Risk Factors” of this prospectus.

Set forth below are some of the major risks that may materially and adversely affect us:

- Failure to successfully maintain or enhance our brand recognition may adversely affect our business, financial condition, results of operations and prospects.
- We rely on third-party distributors and their sub-distributors to sell substantially all of our products to end consumers; however, we have limited control over these distributors and sub-distributors.
- If we fail to anticipate and respond in a timely manner to changes in consumer preferences and end customer demand in the children’s product market in the PRC, our sales may decline and our business, financial condition, results of operations and prospects may be materially and adversely affected.
- Termination of or failure to renew distribution agreements by our distributors and significant decrease in purchase from our distributors could have a material and adverse effect on our business, financial condition, results of operations and prospects.
- Our limited experience operating self-operated retail outlets and our failure to effectively handle the risks associated with operating our self-operated retail outlets may materially and adversely affect our business, financial condition, results of operations and prospects.
- We may not be able to accurately track the sales and inventory levels of our distributors and their sub-distributors.

SHAREHOLDER INFORMATION

Immediately after completion of the Capitalization Issue and the Global Offering, Think Wise and Mr. Ding will together control the exercise of voting rights of more than 30% of the Shares eligible to vote in the general meeting of our Company (without taking into account any Shares to be issued upon exercise of the Over-allotment Option, options granted under the Pre-IPO Share Option Scheme or options which may be granted under the Share Option Scheme). For further details, please refer to the section headed “Relationship with Controlling Shareholders” in this prospectus.

SUMMARY

SUMMARY HISTORICAL FINANCIAL INFORMATION

Consolidated Statements of Comprehensive Income

The table below sets forth our summary consolidated statements of comprehensive income for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB'000			RMB'000	
Turnover	326,974	392,369	519,987	176,548	253,185
Cost of sales	(195,554)	(248,460)	(324,173)	(113,090)	(158,546)
Gross profit	131,420	143,909	195,814	63,458	94,639
Other revenue	155	619	218	154	230
Other net (loss)/income	(66)	(98)	1	3	(781)
Selling and distribution expenses	(33,808)	(43,053)	(49,542)	(19,103)	(22,509)
Administrative and other operating expenses	(9,007)	(11,316)	(13,233)	(5,621)	(12,262)
Profit from operations	88,694	90,061	133,258	38,891	59,317
Finance costs	(1,877)	(2,179)	(2,477)	(1,094)	(1,582)
Profit before taxation	86,817	87,882	130,781	37,797	57,735
Income tax	(10,872)	(10,559)	(15,343)	(4,042)	(15,507)
Profit for the year/period	75,945	77,323	115,438	33,755	42,228
Other comprehensive income for the year/period ...					
Exchange differences on translation of financial information of operations outside China	1,305	2,795	(7)	(313)	2,258
Total comprehensive income for the year/period	<u>77,250</u>	<u>80,118</u>	<u>115,431</u>	<u>33,442</u>	<u>44,486</u>

Our turnover increased by RMB127.6 million, or 32.5%, from RMB392.4 million for the year ended December 31, 2011 to RMB520.0 million for the year ended December 31, 2012, primarily as a result of the increase in the average wholesale selling price of our products from RMB51.3 to RMB58.3 and the increase from 7.6 million to 8.9 million in the volume of products we sold to our distributors. Our average wholesale selling price increased from 2011 to 2012 primarily as a result of our enhanced brand recognition and market acceptance of our products. Our sales volume increased primarily as a result of (i) the significant increase in our sales to our online distributor, Red Kids E-commerce, (ii) the increase in the total number of retail outlets from 560 as of December 31, 2011 to 594 as of December 31, 2012, and (iii) we moved delivery date of 2013 spring/summer collection from early 2013 to December 2012. Sales to Red Kids E-commerce increased by 194.6% from RMB29.8 million for 2011 to RMB87.8 million for 2012 because (i) there was a further shift in 2012 in consumer habit towards online shopping; (ii) we devoted significant resources to developing online sales of our products, including designing products specifically targeting the younger parents who comprised a large portion of online customers and promoting our products on various online sales platforms; and (iii) our online distributor participated in a few major national online shopping events in 2012, such as the “November 11” and “December 12” national online sales days. Our turnover increased by RMB76.7 million, or 43.5%, from RMB176.5 million for the six months ended June 30, 2012 to RMB253.2 million for the six months ended June 30, 2013, primarily as a result of the increase in average wholesale selling price of our products from RMB40.7 to RMB45.2 and the increase from 4.3 million to 5.6 million in the volume of products we sold to our distributors. Our average wholesale selling price and sales volume increased for the six months ended June 30, 2013 when

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compared to the same period in 2012 primarily as a result of enhanced recognition of our brand and market acceptance of our products.

In the course of the Corporate Reorganization, Think Wise, one of our Controlling Shareholders, transferred 60 Shares to SHKSF on June 17, 2013 in settlement of the service fees payable to it during the period between July 2011 and February 2013 for the provision of corporate advisory and financial consultancy services to the Group and Mr. Ding, the beneficial owner of Think Wise. Pursuant to a valuation report provided by an independent valuer prepared with reference to IAS39 Financial Instruments: Recognition and Measurement, the fair value of the 60 Shares in our Company, representing approximately 0.6% of our total issued share capital at the relevant time, was approximately HK\$6.8 million, equivalent to approximately RMB5.4 million. The transfer of 60 Shares in our Company in substitution of the financial consultancy services fee of HK\$6.4 million was agreed between Mr. Ding and SHKSF by reference to, among other things, an agreed upon valuation of our Group when the parties reached consensus to use Shares to settle the financial consultancy services fee in January 2013, the opportunity cost of SHKSF for not receiving cash immediately and the illiquidity of our Shares prior to our successful Listing. Such Shares transferred to SHKSF constituted share-based payment. In respect of the financial consultancy services provided to Mr. Ding for his own benefit, the fair value of such services was determined based on 30 Shares of approximately RMB2.7 million and these costs were not reflected as a cost of the Group and not reflected in the profit or loss account and any reserve of our Company. In respect of the financial consultancy services provided to the Group in respect of the Listing, the fair value of such services was determined based on the remaining 30 Shares of approximately RMB2.7 million, out of which RMB1.9 million relating to the listing of the existing Shares were recognized as an expense in the six months ended June 30, 2013 and the remaining RMB0.8 million relating to the issue of new Shares upon the Listing would be debited against equity upon collection of proceeds from the Global Offering.

Early Delivery of 2013 Spring/Summer Collection

We moved the delivery date of 2013 spring/summer collection from early 2013 to December 2012 due to industry-wide trends and also because of feedback we had received from our distributors in 2011 with regard to the extension of sales window of our spring/summer collection. We intend to continue this trend in the future. As a result of the early delivery of 2013 spring/summer collection, we estimated that our turnover, gross profit and net profit have increased by RMB45.6 million, RMB14.4 million and approximately RMB10.0 million for the year ended December 31, 2012, respectively. The estimated increase in our net profit as a result of early delivery of 2013 spring/summer collection was calculated based on our net profit margin for the year ended December 31, 2012 and is included for illustrative purposes only. As we only decided to move forward our delivery date for our 2013 spring/summer collection in 2012, the delivery of our 2011 and 2012 spring/summer collections were not moved forward. The delivery of our 2011 and 2012 spring/summer collections occurred in the first quarter of 2011 and 2012, respectively.

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Consolidated Statements of Financial Position

The table below sets forth our summary consolidated statements of financial position as of December 31, 2010, 2011 and 2012 and June 30, 2013:

	As of December 31,			As of
	2010	2011	2012	June 30,
		RMB'000		2013
				RMB'000
Non-current assets	54,044	48,929	46,915	96,698
Current assets	218,895	232,292	323,948	442,355
Current liabilities	232,244	160,408	134,619	256,889
Net current (liabilities)/assets	(13,349)	71,884	189,329	185,466
Net assets	40,695	120,813	236,244	282,164
Total equity	<u>40,695</u>	<u>120,813</u>	<u>236,244</u>	<u>282,164</u>

Inventories

Our inventories primarily consist of (i) finished goods manufactured by us or procured from our OEMs; (ii) work in progress products manufactured by us; and (iii) raw materials used in our production.

Our inventories increased by 15.9% from RMB70.6 million as of December 31, 2010 to RMB81.8 million as of December 31, 2011, primarily as a result of an increase in our raw materials and work in progress goods due to our increased production. Our inventories decreased to RMB27.9 million as of December 31, 2012, primarily because (i) our sales increased significantly in 2012 compared with 2011, in particular during the last quarter of 2012, (ii) we had less raw materials and work in progress in stock as we outsourced the production of a higher percentage of our products and (iii) we moved the delivery date of our 2013 spring/summer collection from early 2013 to December 2012 and, as a result, finished goods balance decreased as of December 31, 2012 compared with December 31, 2011. Our inventories increased by 11.8% from RMB27.9 million as of December 31, 2012 to RMB31.2 million as of June 30, 2013 primarily because of increases in our work in progress goods and finished goods, which were in line with the growth of our sales.

Trade receivables

Our trade receivables primarily relate to receivables for goods sold to distributors. Our trade receivables increased significantly from RMB49.0 million as of December 31, 2010 to RMB115.6 million as of December 31, 2011, primarily as a result of the growth in our overall sales and the increase from 30 days to 90 days in the credit period we granted to customers. Our trade receivables further increased by 74.6% from RMB115.6 million as of December 31, 2011 to RMB201.8 million as of December 31, 2012 primarily because of the overall growth in our sales and significant sales increase in the last quarter of 2012 because (i) we moved delivery date of 2013 spring/summer collection from early 2013 to December 2012 and (ii) sales to our online distributor increased significantly in the last quarter due in part to certain major national online shopping events our online distributor participated in, such as the “November 11” and “December 12” national online sales days. Our trade receivables decreased by 21.9% from RMB201.8 million as of December 31, 2012 to RMB157.6 million as of June 30, 2013, primarily because (i) we moved the delivery date of our 2013 spring/summer collection from early 2013 to December 2012

SUMMARY

and (ii) our trade receivables as of June 30, 2013 primarily include sales of our spring/summer collection, which has a lower average wholesale selling price than our fall/winter collection.

Consolidated cash flow statements

The table below sets forth our summary consolidated cash flow statements for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB'000			RMB'000	
Net cash (used in)/generated from operating activities	(8,359)	(2,318)	15,137	33,945	108,714
Net cash (used in)/generated from investing activities	(2,395)	(298)	145	108	(51,520)
Net cash generated from/(used in) financing activities	61,531	(49,586)	(10,392)	(15,511)	118,590
Net increase/(decrease) in cash and cash equivalents	50,777	(52,202)	4,890	18,542	175,784
Cash and cash equivalents at January 1	3,693	55,210	4,004	4,004	8,894
Effect of foreign exchange rate changes	740	996	—	(7)	1,746
Cash and cash equivalents at December 31/June 30	<u>55,210</u>	<u>4,004</u>	<u>8,894</u>	<u>22,539</u>	<u>186,424</u>

FINANCIAL RATIOS

	Year ended/as of December 31,			Six months ended/ as of June 30,
	2010	2011	2012	2013
Gross profit margin ⁽¹⁾	40.2%	36.7%	37.7%	37.4%
Net profit margin ⁽²⁾	23.2%	19.7%	22.2%	16.7%
Current ratio ⁽³⁾	0.9	1.4	2.4	1.7
Quick ratio ⁽⁴⁾	0.6	0.9	2.2	1.6
Return on assets ⁽⁵⁾	27.8%	27.5%	31.1%	15.7%
Return on equity ⁽⁶⁾	186.6%	64.0%	48.9%	29.9%
Interest coverage ratio ⁽⁷⁾	47.3	41.3	53.8	37.5
Net debt to equity ⁽⁸⁾	net cash	15.2%	12.7%	net cash
Gearing ratio ⁽⁹⁾	104.4%	18.5%	16.4%	24.3%

Notes:

- (1) Gross profit margin equals our gross profit divided by turnover for the period.
- (2) Net profit margin equals our profit for the year/period divided by turnover for the period.
- (3) Current ratio equals our current assets divided by current liabilities as of the end of the period.
- (4) Quick ratio equals our current assets less inventories divided by current liabilities as of the end of the period.
- (5) Return on assets equals profit for the year/period divided by the total assets as of the end of the period. Return on assets for the six months ended June 30, 2013 is calculated on an annualized basis.
- (6) Return on equity equals profit for the year/period divided by total equity as of the end of the period. Return on equity for the six months ended June 30, 2013 is calculated on an annualized basis.
- (7) Interest coverage ratio equals profit before finance costs and income tax divided by finance costs of the same period.
- (8) Net debt to equity ratio equals net debt divided by total equity as of the end of the period. Net debt includes all bank loans less cash and cash equivalents.
- (9) Gearing ratio equals total bank loans divided by total equity as of the end of the period.

SUMMARY

RECENT DEVELOPMENTS

The following is a summary of our selected unaudited financial information for the four months ended October 31, 2013, which was prepared on the same basis set out in the Accountants' Report in Appendix I to this prospectus. Our Directors confirm that there has been no material adverse change in our financial or trading position, including but not limited to purchase orders, sales volume and average selling price of products, or in our prospects since June 30, 2013, which was the last date of our latest financial results as set out in the Accountants' Report in Appendix I, up to the date of this prospectus.

Based on our unaudited financial information, our turnover increased by 16.3% to RMB256.8 million for the four months ended October 31, 2013 compared to RMB220.8 million for the four months ended October 31, 2012. Our gross profit margin for the four months ended October 31, 2013 was 39.9%. We introduced 170 SKUs in the four months ended October 31, 2013 as compared to 165 SKUs for the four months ended October 31, 2012.

We established one self-operated retail outlet in Quanzhou City, Fujian Province in August 2013. The opening of the self-operated retail outlet is part of our plan to expand our retail coverage through opening of self-operated retail outlets in prime locations of selected regions which we believe have high sales growth potential. We commenced to execute this expansion plan in early 2013 and secured the location of our first self-operated retail outlet in the third quarter of 2013. For the four months ended October 31, 2013, the turnover of our self-operated retail outlet was approximately RMB144,000.

According to the Decision of the Central Committee of the Communist Party of China on Several Major Issues Concerning Comprehensively Deepening Reforms in the Third Plenary Session of the 18th Central Committee of the Chinese Communist Party on November 12, 2013, the PRC government will allow married couples to have a second child if either parent is an only child. We believe that this new policy may lead to further increase of new-borns in China and support the expansion and the development of the PRC children's apparel industry. Previously, only parents that are both the only child of their respective families were permitted to have a second child.

LISTING EXPENSES

Our estimated total listing expenses amount to approximately RMB35.1 million. In accordance with IAS32, transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would not have been incurred. Listing expenses that are wholly directly attributable to the issue of Shares in the Global Offering, including underwriting commission of approximately RMB7.5 million, would be accounted for as a deduction from equity when the Global Offering is completed. The remaining costs of RMB27.6 million include mainly the fees of Joint Sponsors, legal advisers and reporting accountants and are considered to be related to the listing of Shares in issue as of the Latest Practicable Date and Shares to be issued under the Capitalization Issue and Global Offering. Accordingly, such costs are allocated by reference to the number of Shares to be issued in the Global Offering over the total number of Shares to be listed, and are charged to share premium and profit or loss respectively. Our Directors consider that the above accounting treatment is in line with IAS32. Based on an Offer Price of HK\$1.96 per Offer Share, representing the mid-point of the indicative Offer Price range, the table below sets forth the allocation of

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listing expenses between the amounts recognized or to be recognized as expenses in the statements of comprehensive income and as prepayment in the statements of financial position:

	During the Track Record Period	For four months ended October 31, 2013	Until the completion of the Global Offering	Total amounts
	RMB in million	RMB in million	RMB in million	RMB in million
Listing expenses recognized or to be recognized as expenses in the statements of comprehensive income	3.4 ⁽¹⁾	3.6	15.1	22.1
Listing expenses recognized or to be recognized as prepayment, which would be offset against share premium upon Listing . . .	<u>1.7</u>	<u>0.9</u>	<u>10.4</u>	<u>13.0</u>
Total	<u>5.1</u>	<u>4.5</u>	<u>25.5</u>	<u>35.1</u>

Note:

(1) Listing expenses of RMB3.4 million recognized in the statements of comprehensive income during the Track Record Period were reflected in professional expenses and listing expenses under our administrative and other operating expenses.

The listing expenses set forth above are current estimates for reference only, and the final amount to be recognized to the consolidated statement of comprehensive income of our Group or to be capitalized is subject to adjustment based on audit and the then changes in variables and assumptions. We do not expect these expenses to have a material impact on our business and results of operations for the year ending December 31, 2013.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in our financial or trading position since June 30, 2013 and no event has occurred since June 30, 2013 that would materially and adversely affect the information shown in the Accountants' Report set forth in Appendix I.

DIVIDEND POLICY

During the Track Record Period, we did not declare or pay any dividends. The payment and the amount of any dividends, if paid, will depend on the results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that we may consider relevant. Holders of the Shares will be entitled to receive such dividends pro rata to the amounts paid up or credited as paid up on the Shares. The declaration, payment and amount of dividends will be subject to our discretion.

Dividends may be paid only out of our distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

PROFIT FORECAST

We believe that on the basis and assumptions set forth in Appendix III of this prospectus, and in the absence of unforeseen circumstances, our forecasted consolidated profit for the year

SUMMARY

ending December 31, 2013 is expected to be not less than approximately RMB124.2 million (equivalent to HK\$157.4 million).

OFFER STATISTICS

	Based on the lower end of indicative Offer Price range of HK\$1.60 per Share	Based on the higher end of the indicative Offer Price range of HK\$2.32 per Share
Market capitalization of our Shares ⁽¹⁾	HK\$1,280 million	HK\$1,856 million
Unaudited pro forma adjusted consolidated net tangible asset value per Share ⁽²⁾	HK\$ 0.71	HK\$ 0.85

Notes:

- (1) All statistics in this table are based on the assumption that the Over-allotment Option is not exercised. The calculation of market capitalization is based on 800,000,000 Shares expected to be issued and outstanding following the completion of the Global Offering.*
- (2) The unaudited pro forma adjusted consolidated net tangible asset value per Share is calculated after making the adjustments referred to in Appendix II and based on 800,000,000 Shares expected to be issued and outstanding following the completion of the Global Offering.*

PRE-IPO SHARE OPTION SCHEME

We have conditionally granted options to subscribe for an aggregate of 7,000,000 Shares (representing about 0.9% of the enlarged issued share capital of our Company immediately after completion of the Capitalization Issue and the Global Offering, assuming that the Over-allotment Option is not exercised) at an exercise price equal to 80% of the final Offer Price to 21 grantees by our Company under the Pre-IPO Share Option Scheme. Assuming all such options are exercised, our Shares outstanding upon the completion of the Capitalization Issue and the Global Offering would be diluted by approximately 0.9% and our earnings per Share would be diluted by approximately 2.5% and, as a result, our forecast earnings per Share for the year ending December 31, 2013 would be diluted from approximately HK\$0.2 to approximately HK\$0.195. The costs associated with the options granted under the Pre-IPO Share Option Scheme may adversely affect our financial position and results of operations in future years. For the year ending December 31, 2013, it is expected that a charge in relation to the options granted under the Pre-IPO Share Option Scheme in the amount of not more than RMB200,000 will be recognized as expenses in the consolidated statement of comprehensive income of the Company.

USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK\$269.3 million (equivalent to RMB212.5 million) from the Global Offering, assuming that the Over-allotment Option is not exercised, after deducting underwriting commissions and other estimated offering expenses payable by us and assuming the Offer Price of HK\$1.96 per Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this prospectus. If the Over-allotment Option is exercised in full, we estimate that our additional net proceeds from the offering of these additional Shares will be approximately HK\$45.6 million, after deducting underwriting commissions and our estimated expenses, assuming an Offer Price of HK\$1.96 per Share.

We intend to use the proceeds from the Global Offering for the purposes and in the amounts set out below:

- approximately 32.1%, or HK\$86.4 million (equivalent to RMB68.1 million), is expected to be used primarily for establishing self-operated retail outlets. Currently, we expect to establish not more than three self-operated retail outlets in 2013 and not more than 50

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self-operated retail outlets in total by the end of 2014. Our budgeted initial costs and working capital requirements for each of our self-operated retail outlets, including deposits, setup costs and inventory, are expected to be approximately RMB0.6 million to RMB1.0 million, respectively. Our budgeted total expenditure for establishing our self-operated retail outlets will be not more than RMB3.0 million and RMB40.0 million for 2013 and 2014, respectively. We expect to fund the establishment of our self-operated retail outlets through internal funds and proceeds from the Global Offering;

- approximately 37.6%, or HK\$101.2 million (equivalent to RMB80.0 million), is expected to be used to enhance our design and research and development capabilities in our new design center in Shanghai. Our budgeted capital expenditures are estimated to be approximately RMB57.1 million for setting up our design center, including approximately RMB3.0 million for fees relating to interior design, RMB24.6 million for decorations and leasehold improvements (which amounts to approximately RMB2,300 per sq.m. based on quotes we had received from an Independent Third Party), RMB16.1 million for air-conditioning and heating system (which amounts to approximately RMB1,500 per sq.m.) and RMB13.4 million for purchasing advanced 3-dimensional scanning and printing systems, 3-dimensional computer-aided design system, fabric cutting machines and large-scale ironing equipments. Our budgeted capital expenditures also include RMB8.9 million for recruiting at least 30 additional design and research and development staff. The remaining RMB14.0 million is expected to be used for expenses related to joint programs with established universities in the PRC and international corporations. Under our joint development programs with established universities in the PRC, we plan to provide 30 paid positions to students from the partner institutions and we plan to sponsor events held at such institutions. We expect to incur a total of RMB1.8 million per year for the paid positions and approximately RMB300,000 per year in expenses relating to sponsorship of events. We currently expect to hold the joint development programs for four years, and our total expenses relating to our joint development programs is expected to be approximately RMB8.4 million. In addition to our joint development programs, we expect to incur RMB1.2 million per year for three years on a cooperation program with an international fashion company on the establishment of a platform that collects and analyzes latest fashion trends and design concepts. We expect to incur a total of RMB3.6 million for the cooperation program. As of the Latest Practicable Date, we have not entered into definite agreements with the PRC universities for the joint development program or with the international fashion company for the cooperation program. We expect to incur RMB2.0 million in relation to establishing a statistics and demographic database on children in the PRC and for the training and continuing education of our design and research and development staff, which is intended to provide information regarding our brand history, operation, design concepts, product knowledge and latest market trends;
- approximately 20.3%, or HK\$54.7 million (equivalent to RMB43.2 million), is expected to be used for the establishment of an ERP system;
- approximately 5.0%, or HK\$13.5 million (equivalent to RMB10.6 million), is expected to be used for marketing and promotional activities; and
- the remaining approximately 5.0%, or HK\$13.5 million (equivalent to RMB10.6 million), is expected to be used to fund our working capital and general corporate purposes.

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In the event that the Offer Price is fixed at the highest end of the proposed Offer Price range, the net proceeds from the Global Offering (excluding net proceeds from the sale of the Sale Shares and assuming that the Over-allotment Option is not exercised) to us will be approximately HK\$325.2 million (assuming an Offer Price of HK\$2.32 per Share). In the event that the Offer Price is fixed at the lowest end of the proposed Offer Price range, the net proceeds from the Global Offering (excluding net proceeds from the sale of the Sale Shares and assuming that the Over-allotment Option is not exercised) to us will be approximately HK\$213.5 million (assuming an Offer Price of HK\$1.60 per Share). We will adjust the allocation of the net proceeds for the aforementioned purposes on a pro-rata basis.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:

- “affiliate(s)” any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
- “Application Form(s)” **WHITE** application form(s), **YELLOW** application form(s) and **GREEN** application form(s), individually or collectively, as the context may require
- “Articles of Association” or
“Articles” the articles of association of our Company conditionally adopted on December 27, 2013 and as amended from time to time, a summary of which is set out in Appendix IV to this prospectus
- “associate(s)” has the meaning ascribed thereto under the Listing Rules
- “BCA” The Beijing Consumer Association (北京市消費者協會), a non-governmental association established to conduct public oversight of goods and services and protect the legitimate rights and interests of the consumers
- “Benhui” Benhui Capital Ltd., an investment holding company incorporated under the laws of the BVI with limited liability on October 5, 2010, which is wholly-owned by Mr. Hui Pan. Benhui will hold approximately 1.20% of the Shares upon the Listing (assuming the Over-allotment Option is not exercised and no option granted under the Pre-IPO Share Option Scheme and to be granted under the Share Option Scheme is exercised). Benhui is a pre-IPO investor of our Company
- “Board” or “Board of Directors” the board of Directors
- “Business Day” a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
- “BVI” British Virgin Islands
- “CAGR” compound annual growth rate
- “Capitalization Issue” the issue of 639,000,000 Shares upon capitalization of certain sums standing to the credit of the share premium account of our Company referred to in the paragraph headed “Written resolutions of our Shareholders passed on December 27, 2013” under the section headed “Further

DEFINITIONS

	Information about our Company” in Appendix V to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CCBI”	CCB International Capital Limited, a corporation licensed under the SFO and permitted to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities
“CCBI Investments”	CCBI Investments Limited, an investment holding company incorporated with limited liability under the laws of Cayman Islands on November 10, 2004 and an indirect wholly-owned subsidiary of China Construction Bank Corporation, a company listed on the Main Board of the Stock Exchange (stock code: 939) and the Shanghai Stock Exchange (stock code: 601939)
“Chance Talent”	Chance Talent Management Limited, a company incorporated with limited liability under the laws of the BVI on July 4, 2007, which is wholly owned by CCBI Investments. Chance Talent is a pre-IPO investor of our Company. Please refer to the section headed “History and Corporate Structure — Investments by our pre-IPO investors” for details of its shareholding in our Company upon completion of the Listing
“China Galaxy”	China Galaxy International Securities (Hong Kong) Co., Limited, a corporation licensed under the SFO and permitted to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities
“Companies Law”	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time

DEFINITIONS

- “Company” or “our Company” Miko International Holdings Limited (米格國際控股有限公司), an exempted company incorporated with limited liability under the laws of the Cayman Islands on March 15, 2013
- “connected person(s)” has the meaning ascribed thereto under the Listing Rules
- “Controlling Shareholder(s)” has the meaning ascribed thereto in the Listing Rules and unless the context requires otherwise, refers to Think Wise, and its beneficial owner, Mr. Ding. Adopting the mid-point of the indicative Offer Price range of HK\$1.96 per Share and for illustration purpose, assuming the exchange right in respect of 44% of the principal amount of the Exchangeable Notes will be exercised by Chance Talent before completion of the Global Offering, the Controlling Shareholders will control approximately 39.76% of the Shares upon the Listing (assuming that the Over-allotment Option is not exercised and no option granted under the Pre-IPO Share Option Scheme and to be granted under the Share Option Scheme is exercised)
- “Corporate Reorganization” the corporate reorganization of our Group conducted in preparation for the Listing, details of which are set out in the paragraph headed “Corporate Reorganization” under the section headed “History and Corporate Structure” in this prospectus
- “CSRC” China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the securities markets in the PRC
- “Deed of Indemnity” a deed of indemnity dated December 16, 2013 entered into between the Controlling Shareholders and our Company as referred to in Appendix V of this prospectus
- “Deed of Non-competition” a deed of non-competition dated December 16, 2013 entered into by the Controlling Shareholders in favor of our Company, details of which are disclosed in the section headed “Relationship with Controlling Shareholders” in this prospectus
- “Director(s)” the directors of our Company
- “ERP” enterprise resource planning
- “Exchangeable Notes” the exchangeable notes with a principal amount of US\$15,000,000 issued by Think Wise to Chance Talent pursuant to an investment agreement entered into between, among others, Think Wise and Chance Talent dated April 17, 2013

DEFINITIONS

“first-tier cities”	Beijing, Shanghai, Guangzhou and Shenzhen
“fourth-tier cities”	County-level and other townships-level cities
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc. Shanghai Branch Co.
“Frost & Sullivan Report”	a customized report titled “China Children’s Apparel Market Study, 2013” prepared by Frost & Sullivan and commissioned by our Company for the purpose of the Global Offering
“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offering and the International Placing
“GREEN Application Form(s)”	the application form(s) to be completed by White Form eIPO service provider, Computershare Hong Kong Investor Services Limited
“Group”, “our Group”, “we”, “our” or “us”	our Company and its subsidiaries at the relevant time or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors
“HK\$”, “HK dollars” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”, “HKSAR” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Public Offering”	the offer to the public in Hong Kong for subscription of the Hong Kong Public Offer Shares at the Offer Price, on and subject to the terms and conditions stated in this prospectus and in the Application Forms
“Hong Kong Public Offer Shares”	The 16,000,000 new Shares (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus) being offered by us for subscription at the Offer Price under the Hong Kong Public Offering
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering

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“Hong Kong Underwriting Agreement”	the underwriting agreement dated December 30, 2013 and entered into by, among others, our Company, the Joint Sponsors, the Joint Bookrunners and the Hong Kong Underwriters relating to the Hong Kong Public Offering
“IAS”	International Accounting Standard
“IFRS”	International Financial Reporting Standards
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial shareholders (within the meaning of the Listing Rules) of our Company, its subsidiaries or any of their respective associates
“International Placing”	the conditional placing of the International Placing Shares by the International Underwriters with professional, institutional and/or other investors outside the United States in offshore transactions in reliance on Regulation S at the Offer Price, as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Placing Shares”	the 144,000,000 Shares initially offered by our Company for subscription at the Offer Price under the International Placing (subject to adjustment as described in the section headed “Structure of the Global Offering”) together with (unless the context otherwise requires) any Shares issued pursuant to any exercise of the Over-allotment Option
“International Underwriters”	the underwriters of the International Placing
“International Underwriting Agreement”	the conditional placing and underwriting agreement relating to the International Placing and to be entered into by, among others, the Company, the Joint Bookrunners and the International Underwriters on or about the date of the Price Determination Agreement
“Joint Bookrunners” and “Joint Lead Managers”	CCB International Capital Limited, China Galaxy International Securities (Hong Kong) Co., Limited and Guotai Junan Securities (Hong Kong) Limited
“Joint Sponsors”	CCB International Capital Limited and China Galaxy International Securities (Hong Kong) Co., Limited
“Latest Practicable Date”	December 24, 2013 being the latest practicable date prior to the printing of this prospectus for the purpose of

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	ascertaining certain information contained in this prospectus prior to its publication
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Date”	the date expected to be on or about January 15, 2014, on which the Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Lock-up period”	the period commencing from the Latest Practicable Date up to and including the date falling six months after the Listing Date
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock exchange operated by the Stock Exchange before the establishment of the Growth Enterprise Market of the Stock Exchange (excluding the option market) and which continues to be operated by the Stock Exchange in parallel with the Growth Enterprise Market of the Stock Exchange
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company
“Miko Shanghai”	Miko (Shanghai) Apparels Co., Ltd. (米格(上海)服飾有限公司), a wholly foreign-owned enterprise established under the laws of the PRC on June 24, 2013 and an indirect wholly-owned subsidiary of our Company
“Ministry of Commerce” or “MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Ding”	Mr. Ding Peiji
“Obvious Cheer”	Obvious Cheer Investment Development Limited (明智投資發展有限公司), an investment holding company incorporated under the laws of the BVI with limited liability on January 2, 2013 and a direct wholly-owned subsidiary of our Company
“ODM”	Acronym for original design manufacturer, a business that designs and manufactures a product which is specified and eventually branded for sale by others

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- “OEM” Acronym for original equipment manufacturer, a business that manufactures goods or equipment for branding and resale by others
- “Offer Price” the final Hong Kong dollar price per Offer Share (before brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%) at which Shares are to be subscribed pursuant to the Global Offering, which will be not more than HK\$2.32 and is expected to be not less than HK\$1.60, to be determined as described in the section headed “Structure of the Global Offering — Determining the Offer Price”
- “Offer Shares” the Hong Kong Public Offer Shares and the International Placing Shares
- “Opulent Ample” Opulent Ample Limited, an investment holding company incorporated under the laws of the BVI with limited liability on March 15, 2013, and is wholly-owned by Mr. Ding Weizhu (丁為祝), the father of Mr. Ding, Ms. Ding Lizhen and Mr. Ding Peiyuan, all executive Directors. Opulent Ample will hold approximately 5.28% of the Shares upon the Listing (assuming the Over-allotment Option is not exercised and no option granted under the Pre-IPO Share Option Scheme and to be granted under the Share Option Scheme is exercised)
- “Over-allotment Option” the option to be granted by our Company to the International Underwriters, exercisable by Guotai Junan Securities (Hong Kong) Limited on behalf of the International Underwriters, under the International Underwriting Agreement pursuant to which our Company may be required by Guotai Junan Securities (Hong Kong) Limited to allot and issue up to 24,000,000 new Shares, representing 15% of the Offer Shares initially available under the Global Offering, at the Offer Price to cover over-allocations in the International Placing
- “PBOC” People’s Bank of China (中國人民銀行), the central bank of China
- “PRC” or “China” People’s Republic of China excluding, for the purpose of this prospectus, Hong Kong, Macau and Taiwan
- “PRC Government” or “State” the central government of the PRC, including all political sub-divisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof, or where the context requires, any of them
- “Pre-IPO Share Option Scheme” the pre-IPO share option scheme approved and adopted by our Company pursuant to a resolution passed by our Shareholders on December 27, 2013, the principal terms of

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which are summarized under the paragraph headed “Pre-IPO Share Option Scheme” in Appendix V to this prospectus

- “Price Determination Date” the date, expected to be on or about January 7, 2014 but not later than January 13, 2014, on which the Offer Price is determined for the purposes of the Global Offering
- “provinces” include provinces, autonomous regions and municipalities under the direct administration of the central government of the PRC
- “Red Kids China” Red Kids (China) Co., Ltd. (紅孩兒(中國)有限公司), formerly known as Red Kids (Fujian) Light Textile Development Co., Ltd. (紅孩兒(福建)輕紡發展有限公司), a wholly foreign-owned enterprise established under the laws of the PRC on January 20, 2000 and an indirect wholly-owned subsidiary of our Company
- “Red Kids E-commerce” Shanghai Red Kids E-Commerce Co., Ltd. (上海紅孩兒電子商務有限公司), a limited liability company established under the laws of the PRC on July 15, 2010 and is owned as to 60% by Mr. Ding Mingxiong (丁銘雄) and 40% by Mr. She Yuntao (佘雲濤). Red Kids E-commerce is a distributor of our Company
- “Red Kids Group HK” Red Kids Group (Hong Kong) Limited (紅孩兒集團(香港)有限公司), a company incorporated under the laws of Hong Kong with limited liability on June 2, 1999 and dissolved on June 3, 2005. From the date of its incorporation up to its date of dissolution, Red Kids Group HK was held as to 95% by Mr. Ding and 5% by Mr. Lau Hoi Ming (劉海明)
- “Red Kids HK” Red Kids Group (Hong Kong) Limited (紅孩兒集團(香港)有限公司), a company incorporated under the laws of Hong Kong with limited liability on July 29, 2005 and an indirect wholly-owned subsidiary of our Company
- “Regulation S” Regulation S under the U.S. Securities Act
- “Rightful Style” Rightful Style Limited, an investment holding company incorporated under the laws of the BVI with limited liability on March 8, 2013, and is wholly-owned by Mr. Ding Peiyuan (丁培源), a younger brother of Mr. Ding and Ms. Ding Lizhen, all executive Directors. Rightful Style will hold approximately 5.28% of the Shares upon the Listing (assuming the Over-allotment Option is not exercised and no option granted under the Pre-IPO Share Option Scheme and to be granted under the Share Option Scheme is exercised)

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“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“SAT”	State Administration of Taxation of the PRC
“second-tier cities”	the capitals of provinces in the PRC excluding Guangzhou, municipalities excluding Shanghai and Beijing, and the capitals of the autonomous regions in the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the issued share capital of our Company
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on December 27, 2013, the principal terms of which are summarized under the paragraph headed “Share Option Scheme” in Appendix V to this prospectus
“Shareholder(s)”	holder(s) of the Share(s)
“SHKSF”	Sun Hung Kai Structured Finance Limited, an investment holding company incorporated under the laws of Hong Kong with limited liability on April 11, 1980. Sun Hung Kai & Co. Limited, a company listed on the Main Board of the Stock Exchange (stock code: 86), indirectly controls 100% interest of SHKSF. SHKSF will hold approximately 4.12% of the Shares upon the Listing (assuming the Over-allotment Option is not exercised and no option granted under the Pre-IPO Share Option Scheme and to be granted under the Share Option Scheme is exercised). SHKSF is a pre-IPO investor of our Company
“SKU”	Acronym for stock keeping unit, a unique identifier for each distinct product and service that can be purchased
“Snowy Wise”	Snowy Wise Limited, an investment holding company incorporated under the laws of the BVI with limited liability on March 6, 2013, and is wholly-owned by Ms. Ding Lizhen (丁麗真), an elder sister of Mr. Ding and Mr. Ding Peiyuan, all executive Directors. Snowy Wise will hold approximately 5.28% of the Shares upon the Listing (assuming the Over-allotment Option is not exercised and no option granted under the Pre-IPO Share Option Scheme

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	and to be granted under the Share Option Scheme is exercised)
“Sole Global Coordinator”	CCBI
“Splendid First”	Splendid First Limited, an investment holding company incorporated under the laws of the BVI with limited liability on January 2, 2013, and is wholly-owned by Ms. Ding Lai Yan (丁麗仁), an elder sister of Mr. Ding. Splendid First will hold approximately 5.20% of the Shares upon the Listing (assuming the Over-allotment Option is not exercised and no option granted under the Pre-IPO Share Option Scheme and to be granted under the Share Option Scheme is exercised)
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between Think Wise and Guotai Junan Securities (Hong Kong) Limited on or about the Price Determination Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto in section 2 of the Companies Ordinance
“substantial shareholders”	has the meaning ascribed to it under the Listing Rules
“Think Wise”	Think Wise Holdings Investment Limited (華智控股投資有限公司), an investment holding company incorporated under the laws of the BVI with limited liability on November 18, 2010, is wholly-owned by Mr. Ding, and a Controlling Shareholder of our Company. On the basis that the Listing is completed on or before October 31, 2014, and assuming that: (i) the Over-allotment Option is not exercised and no option granted under the Pre-IPO Share Option Scheme and to be granted under the Share Option Scheme is exercised; (ii) the mid-point of the indicative Offer Price range of HK\$1.96 is adopted; and (iii) for illustration purpose only, the automatic exercise of the exchange right in respect of 44% of the principal amount of the Exchangeable Notes by Chance Talent upon the Listing, Think Wise will hold approximately 39.76% of the Shares upon the Listing
“third-tier cities”	Prefecture-level cities in the PRC, excluding any first- and second-tier cities.
“Track Record Period”	the three years ended December 31, 2012 and the six months ended June 30, 2013
“Underwriters”	the Hong Kong Underwriters and the International Underwriters

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“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “US”	the United States of America within the meaning of Regulation S
“US dollars” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	the United States Securities Act of 1933, as amended from time to time
“Vantage Assets”	Vantage Assets Investments Limited, an investment holding company incorporated under the laws of the BVI with limited liability on November 8, 2012, and is wholly-owned by Mr. Chan Wing Yau George. Vantage Assets will hold approximately 3.64% of the Shares upon the Listing (assuming the Over-allotment Option is not exercised and no option granted under the Pre-IPO Share Option Scheme and to be granted under the Share Option Scheme is exercised). Vantage Assets is a pre-IPO investor of our Company
“WFOE”	wholly foreign-owned enterprise
“White Form eIPO”	applying for Hong Kong Public Offer Shares to be issued in your own name by submitting applications online through the designated website at www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Wind Dove”	Wind Dove Limited, an investment holding company incorporated under the laws of the BVI with limited liability on February 15, 2013, and is wholly-owned by Ms. Ding Luping (丁璐萍), a sister-in-law of Mr. Ding. Wind Dove will hold approximately 4.80% of the Shares upon the Listing (assuming the Over-allotment Option is not exercised and no option granted under the Pre-IPO Share Option Scheme and to be granted under the Share Option Scheme is exercised)
“Xiamen Minghao”	Minghao (Xiamen) Children’s Products Co., Ltd. (銘濠(廈門)兒童用品有限公司), a limited liability company established under the laws of the PRC on July 27, 2009, which is owned as to 80% by Mr. Ding Peijie (丁培杰) and 20% by Mr. Ding Rongyuan (丁榮源), a brother-in-law of Mr. Ding Peijie. Mr. Ding Peijie is a brother of each of Mr. Ding, Mr. Ding Peiyuan and Ms. Ding Lizhen, each a Director

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“Yuen Hung” Yuen Hung Development Trading Company Limited (遠鴻發展貿易有限公司), a company incorporated under the laws of Hong Kong with limited liability on June 9, 2004 and is currently wholly-owned by Mr. Ding Weida (丁偉達), an Independent Third Party

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

If there is any inconsistency between the Chinese names of entities or enterprises established in China and their English translations, the Chinese names shall prevail. The English translation of company names in Chinese or another language which are marked with “” and the Chinese translation of company names in English which are marked with “*” is for identification purpose only.*

Unless otherwise specified, all relevant information in this prospectus assumes no exercise of the Over-allotment Option.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- (1) our business strategies and plan of operation;
- (2) our capital expenditure plans;
- (3) the amount and nature of, and potential for, future development of our business;
- (4) our operations and business prospects;
- (5) our dividend policy;
- (6) projects under construction or planning;
- (7) the regulatory environment of our industry in general; and
- (8) future development in our industry.

The words “anticipate”, “believe”, “could”, “expect”, “intend”, “may”, “plan”, “seek”, “will”, “would” and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. One or more of these risks or uncertainties may materialize, or underlying assumptions may prove incorrect.

Our Directors confirmed that these forward-looking statements are made after due and careful consideration.

Subject to the requirements of the Listing Rules, we do not intend to publicly update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

Potential investors should consider carefully all the information set out in this prospectus and, in particular, should consider and evaluate the following risks in connection with an investment in the Company. Investors should also pay particular attention to the fact that we conduct a significant part of our operations in the PRC, which has a legal and regulatory environment that may differ in some respects from that of other countries. The business, financial condition, results of our operations or prospects could be adversely and materially affected by such risk and uncertainties. The trading price of the Shares could decline due to any of these risks and investors may lose all or part of their investment.

RISKS RELATING TO OUR BUSINESS AND OUR INDUSTRY

Failure to successfully maintain or enhance our brand recognition may adversely affect our business, financial condition, results of operations and prospects.

We sell substantially all of our products under our “redkids” brand. Our brand recognition is critical to our success as we believe that market perception and consumer acceptance of a brand is a determining factor in consumers’ purchase decisions. We have established our “redkids” brand as a children’s apparel brand that offers high-quality, functional and comfortable products. If we are unsuccessful in promoting our “redkids” brand or fail to maintain our brand position or market perception, our reputation and consumer acceptance of our “redkids” brand may erode, and our business, financial condition, results of operations and prospects may be materially and adversely affected.

Any negative publicity or disputes relating to our “redkids” brand, products, sponsored events or management, the loss of any award or accreditation associated with our “redkids” brand or products or the use of our “redkids” brand name or trademarks by unauthorized third parties could materially and adversely affect our business, financial condition, results of operations and prospects.

We rely on third-party distributors and their sub-distributors to sell substantially all of our products to end consumers; however, we have limited control over these distributors and sub-distributors.

As of June 30, 2013, 582 of the retail outlets under our “redkids” brand were owned and managed by our distributors and their sub-distributors. We rely on distribution agreements to ensure that our distributors adhere to our retail policies. There is no assurance, however, that our distributors will comply with our retail policies or follow our strategies at all times. In the event that any non-compliance occurs, we may not be able to effectively manage our distribution network or maintain our brand image. In addition, we do not have direct contractual relationships with sub-distributors and we rely on distributors to oversee the operations of retail outlets operated by their sub-distributors. Moreover, if any of our distributors fails to adhere to its contractual obligation to distribute our products on an exclusive basis or fails to comply with our policies, our brand image, business, financial condition, results of operations and prospects could be materially and adversely affected. Any deviation by our distributors and their sub-distributors from our marketing and pricing policies or aggressive discounting of the retail prices of our products could result in the erosion of goodwill, a decrease in the market value of our brand and an unfavorable public perception about the quality of our products, thus resulting in a material and adverse effect on our business, financial condition, results of operation and prospects.

RISK FACTORS

If we fail to anticipate and respond in a timely manner to changes in consumer preferences and end customer demand in the children's product market in the PRC, our sales may decline and our business, financial condition, results of operations and prospects may be materially and adversely affected.

We believe that our success depends on our ability to anticipate, identify and interpret the habits, tastes of and trends among our target consumers and to offer products that adjust to their preferences. If we fail to anticipate accurately the shifts in consumer preferences or fail to introduce new and improved products to satisfy those preferences in a timely manner or adjust our product mix accordingly, our sales and market share may decrease, resulting in reduced profitability. In addition, given the diversity of our consumers across China, we must offer products that satisfy a broad spectrum of consumer preferences and continuously develop innovative products across our product categories in order to be successful. As part of our plan to broaden our product portfolio, we plan to invest more resources in the design, research and development of new products. However, we cannot assure you that our target consumers will accept or be satisfied with these new products when we introduce them. If our new products fail to effectively meet the market demand thus fail to generate profits, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Termination of or failure to renew distribution agreements by our distributors and significant decrease in purchases from our distributors could have a material and adverse effect on our business, financial condition, results of operations and prospects.

We sell substantially all of our products to distributors on a wholesale basis, and they in turn sell our products to end customers through retail outlets owned by them or their sub-distributors or through online sales platforms. As of June 30, 2013, we had 24 distributors in 24 provinces and municipalities in China, who together with their sub-distributors operated a total of 62 shopping mall outlets, 308 street shops and 212 department store concessions under our "redkids" brand. Sales to our five largest distributors accounted for 32.0%, 35.2%, 46.3% and 45.9% of our total turnover for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively, while sales to our largest distributor accounted for approximately 7.0%, 7.6%, 16.9% and 14.7% of our total turnover for those respective periods.

We typically enter into distribution agreements with our distributors for a term from one to four years, which are renewable upon expiration. We cannot assure you that the distribution agreements we have with existing distributors will be renewed on the same or similar terms, or at all, upon or before the expiration of these distribution agreements, nor can we assure you that existing distributors will not terminate these distribution agreements before they expire. There is also no assurance that existing distributors will continue to place orders with us at historical levels, or at all. If any of the major distributors substantially reduces its volume of purchases from us or ceases to do business with us altogether, our sales may decrease substantially and our business, financial condition, results of operations and prospects may be materially and adversely affected.

In addition, if any of our distributors terminates or does not renew its distribution agreement with us, we may not be able to replace it with a new distributor in a timely manner, or the replacement distributor may not be able to manage the corresponding retail network effectively. If we are unable to locate a replacement distributor, we would lose sales generated from the retail outlets in that region and our business, financial condition, results of operations and prospects could be materially and adversely affected.

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Our limited experience operating self-operated retail outlets and our failure to effectively handle the risks associated with operating our self-operated retail outlets may materially and adversely affect our business, financial condition, results of operations and prospects.

As part of our business strategies, we plan to establish self-operated retail outlets as model stores to enhance our brand recognition, demonstrate our standards for store appearance and provide guidance to distributors in brand promotion and retail management. We established one self-operated retail outlet in 2013 and we plan to develop more self-operated retail outlets in the next few years. However, there are certain potential risks associated with establishing our self-operated retail outlets. Our management team has to allocate their time from our other daily operations to retail management matters. In addition, we expect staff costs to increase as we employ additional employees to run our self-operated retail outlets. Furthermore, we incur initial setup costs for our self-operated retail outlets, including rental deposits, decoration and leasehold improvements as well as initial inventories, all of which causes cash outflows and puts pressure on our operating cash flows. We expect the payback period⁽¹⁾ for the initial setup costs of each of our self-operated retail outlets to be approximately two to three years. We expect the profit and loss breakeven period⁽²⁾ for each of our self-operated retail outlets to be between three to six months. However, we cannot assure you that we will be able to achieve the payback period or the profit and loss breakeven period for our self-operated retail outlets as expected or at all. Furthermore, we are also required to obtain relevant licenses and to secure suitable locations for our self-operated retail outlets. However, there is no assurance that we will be able to obtain the relevant licenses or to secure the suitable locations for our self-operated retail outlets according to our development plan or at all. We have limited experience operating self-operated retail outlets, so it may be difficult for us to identify and address all the challenges that we may face. Our financial condition and results of operations should be considered in light of the risks and difficulties we may face. If we are unable to successfully handle these risks and difficulties, our business, financial condition, results of operations and prospects could be materially and adversely affected.

We may not be able to accurately track the sales and inventory levels of our distributors and their sub-distributors.

We do not have a management information system that connects our headquarters to the retail outlets under our “redkids” brand that sell our products. Currently, we rely on monthly visits to retail outlets operated by our major distributors and the sub-distributors engaged by them and on quarterly visits to retail outlets operated by our other distributors and their sub-distributors to monitor our distributors’ and their sub-distributors’ sales and inventory levels. Our major distributors, including our top ten distributors measured by sales revenue during the Track Record Period, are also required to submit inventory reports on a monthly basis and other distributors are required to submit inventory reports on a quarterly basis. The retail outlets we visit are selected randomly as we believe random sampling would eliminate sampling bias and thus enhance the accuracy of the sales and inventory data collected. We also have members of our sales team spot check inventory at retail outlets from time to time. As there is no system that allows us to monitor sales and inventory changes independently, we rely heavily on the cooperation of distributors and

Note:

- (1) *The period of time required to recover the initial setup costs, which is expected to grow in line with the Group’s overall capital expansion plan, of each self-operated retail outlet by its net profit, assuming the revenue will increase in line with the overall business growth and there will be no material impact on the business and operating result of the self-operated retail outlet due to the seasonal fluctuations in market demand, market inflations, increase in new material costs and labor expenses throughout the operation periods.*
- (2) *The period of time required for a self-operated retail outlet to generate sales equal to its operating cost for the first time, assuming the nurturing period for each of the new self-operated retail outlet would generally take one to three months after opening and revenue growth rates and gross profit margins would be similar to the existing self-operated retail outlet.*

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sub-distributors to obtain such data. If distributors or sub-distributors fail to provide us with accurate sales and inventory data, we may not have any other means to ascertain sales or inventory levels in our distribution network. As a result, we may misjudge market conditions and plan our production and procurement based on erroneous information, which, in turn, may materially and adversely affect our business, financial condition, results of operations and prospects. We plan to install an ERP system in phases to allow us to obtain real-time operating data, including sales and inventory levels, at all retail outlets. However, there is no assurance that such ERP system will be installed according to our plan or, when implemented, operate as we intend without interruption. Any disruption to the installation of the ERP system or to the implementation of the ERP system may adversely affect our ability to accurately track sales and inventory levels or to identify or prevent any excessive inventory build-up at retail outlets, which in turn, may materially and adversely affect our business, financial condition, results of operations and prospects.

We or our distributors may not be successful in securing prime locations for shopping mall outlets, street shops and department store concessions.

We sell substantially all of our products to end consumers through a network of retail outlets owned and managed by our distributors and their sub-distributors or through online sales platforms. Our performance depends, to a significant extent, on the location of these retail outlets, as we believe prime location is key to accessing our target consumer groups and brand building. As the supply of prime locations is limited, the competition to secure these properties or locations is intense. Our competitors may secure our desired prime locations before we or our distributors can. In addition, department store operators may increase the concession fees charged on the retail outlets operated by our distributors and/or their sub-distributors, and as a result, the operations of these retail outlets may not be commercially viable to our distributors. We cannot assure you that we or our distributors and/or their sub-distributors will be able to identify, rent and maintain suitable properties or negotiate with and open retail outlets in shopping malls, department stores or street shops on terms acceptable to us or our distributors and/or their sub-distributors. In the event that we or our distributors and/or their sub-distributors fail to secure prime locations for retail outlets under our brand, our sales, business, financial condition, results of operations and prospects may be materially and adversely affected.

We outsource the production of a portion of our products. Any disruption in the supply of our products could have a material and adverse effect on our business, financial condition, results of operations and prospects.

We outsource the manufacturing of a portion of our products to external domestic OEMs. Our OEMs may decide not to accept our future purchase orders on the same or similar terms or at all. If an OEM decides to substantially reduce its volume of supply to us, substantially increase the prices of its products or terminate its business relationship with us, we may need to find a proper replacement in a timely manner, the failure of which may result in delays or defaults on the distribution agreements with our distributors. In addition, if any of our OEMs fails to provide the required amount of products meeting our quality standards, we may need to source products from other OEMs, which may result in additional costs and delays in the delivery of our products to our distributors. If the products failing to meet our quality standards have already been sold to our distributors, we may need to recall these products, resulting in additional costs, and our business reputation may be negatively affected.

A number of factors could also cause prolonged interruptions or have a negative effect on the operations of these OEMs, such as equipment failures or property damages experienced by

RISK FACTORS

these OEMs, changes in laws and regulations that affect their manufacturing costs or process or financial difficulties or labor disputes faced by these OEMs. Moreover, we may not be able to exercise adequate control over the operations of our OEMs and as a result are not able to ensure their compliance with applicable laws and regulations. Failure on the part of any of our outsourced OEMs to comply with applicable laws and regulations, such as product-related, labor and environmental laws and regulations, may result in negative publicity which may damage our image and reputation and materially and adversely affect our profitability. Any of the above events may materially and adversely damage our relationships with our distributors or disrupt the supply of our products, causing a material and adverse effect on our business, financial condition, results of operations and prospects.

As we do not have direct control over our OEMs, if any of them is involved in unauthorized production of products using our brand, which may have lower quality and be sold at lower prices on the market, our reputation, business, financial condition, results of operations and prospects may be materially and adversely affected.

As we expect to expand our business and our product portfolio, our reliance on OEMs is also likely to increase in 2013 and beyond. We may not be able to find sufficient additional OEMs to produce our products on the same or similar terms as our existing contractual OEMs. As a result, we may not be able to achieve our growth and development goals.

We may encounter difficulties when expanding into new markets, introducing new products or integrating new brands into our business.

We plan to expand our geographic coverage by establishing self-operated retail outlets and working with our distributors to expand our distribution network to new markets. However, factors as listed below could prevent us from competing effectively in these markets and thus negatively affect our expansion:

- unfamiliarity with these local markets;
- difficulty in targeting qualified local distributors;
- difficulty in obtaining prime locations for retail outlets; and
- market entry barriers such as strong local competitors that may have proximity advantages and local connections.

In addition, retail outlets in our distribution network have been highly successful since their openings and contributed significantly to the growth in our revenue and net profit. However, for new retail outlets to be launched and operated in new markets, there is no assurance that they will be as successful as other retail outlets in our distribution network.

The children's product market is highly competitive and consumers are tempted to change their choices and preferences whenever new products are launched or introduced by various marketing and promotional events of different brands owned by our competitors. In order to keep our leading position in this competitive market, we need to keep upgrading our existing product series and develop new and innovative products to respond to consumers' demands and market changes. The development of new product categories involves inherent risks, such as making incorrect judgments as to consumer preferences, the anticipated levels of demand and/or the price

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ranges for the new products. Failure to successfully translate market trends into attractive product offerings and to recover development, production and marketing costs of unsuccessful new products in the future may adversely affect our business, financial condition, results of operations and prospects.

Furthermore, to enhance our growth, we may acquire other international children's product brands to expand our brand portfolio in the future. However, any new brands that we acquire in the future may not achieve anticipated growth or may fail, and we may also not be able to successfully integrate these acquired brands into our existing business operations. We cannot guarantee that any of the brands we acquire and promote will meet our revenue goals or achieve the product and business mix necessary to improve our operating margins. Failure of our brand strategy could materially and adversely affect our business, financial condition, results of operations and prospects.

Increase in cost of outsourced production, raw materials and labor in the PRC may adversely affect our business and our profitability.

The principal raw materials used in the production of our children's products are fabrics and auxiliary materials, including buttons and zippers. We generally do not maintain long-term contracts with our raw material suppliers or OEMs, and the prices that we pay for raw materials and products they provide are subject to fluctuation and are affected by several factors, such as fluctuations in commodity prices, our purchase volume, market demand for the raw materials and the availability of substitute materials. Further, labor costs in the PRC have increased significantly in recent years and have impacted our cost structure. In addition to inflation and other factors, the implementation of the PRC Labor Contract Law (中華人民共和國勞動合同法), which became effective on January 1, 2008, also contributed to the increase in labor costs in the PRC. Among other things, the PRC Labor Contract Law imposes more stringent requirements on employers in relation to entry into fixed term employment contracts, dismissal of employees, provision of severance payment and paid annual leave for employees. We expect that our labor costs will continue to increase in the future. If we are unable to identify and adopt other appropriate means to reduce costs of our in-house or outsourced production or to pass on such increases in the cost of raw materials, labor or products to end consumers, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Furthermore, we cannot assure you that any disputes, work stoppages or strikes will not arise in the future. Any future disputes with our employees could adversely affect our business, financial condition, results of operations and prospects.

Disruption of our manufacturing operations could have a material and adverse effect on us.

The proportion of our products manufactured at our production facilities in Quanzhou, Fujian Province amounted to approximately 31.9% of our total cost of sales for the six months ended June 30, 2013. Our ability to meet the demand of and our contractual obligations with our distributors as well as our ability to grow our business is heavily dependent on efficient, proper and uninterrupted operations at our production facilities. Problems may arise during the manufacturing process for a variety of reasons, including power failures or disruptions, the breakdown, failure or substandard performance of equipment, the improper installation or operation of equipment and the destruction of buildings, equipment and other facilities due to fire or natural disasters, such as typhoons or earthquakes, and would severely affect our ability to continue our operations. We could also experience labor disputes or strikes in the future which

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could negatively affect or even halt our operations. As of the Latest Practicable Date, we did not have any business interruption insurance. Any such events and any losses or liabilities that are not covered by our current insurance policies could have a material and adverse effect on our business, financial condition, results of operations and prospects.

We operate in a fragmented and highly competitive market. If we fail to compete effectively, our market share and profit margins may decline.

The children's apparel industry is currently fragmented and highly competitive. Participants in this market include both international and domestic brands that compete on, among other things, brand loyalty, product variety, product design, product quality, marketing and promotion, retail network coverage, price and the ability to meet delivery commitments to distributors and retailers. This competition has led to leading brands continuing to gain market share at the expense of less established and lower-end brands. We may not be able to compete effectively against competitors who may have greater financial resources, greater scale of production, superior product design, better brand recognition and a wider, more diversified and established retail network. If we fail to compete effectively, our market share and profit margins may decline. To compete effectively and maintain our market share, we may be forced to, among other actions, reduce prices, provide more sales incentives to our distributors and increase expenditures on advertising, which may in turn materially and adversely affect our profit margins, business, financial condition, results of operations and prospects.

We recorded a net current liabilities position as of December 31, 2010.

We recorded net current liabilities of RMB13.3 million as of December 31, 2010, primarily because we had RMB137.1 million in short-term loans from our Controlling Shareholder and related parties, which were used to finance our working capital needs. We had a net current assets position as of December 31, 2011 and 2012.

We cannot assure you that we will not have a net current liabilities position in the future. A net current liabilities position exposes us to liquidity risks. Our future liquidity, the payment of trade and other payables and repayment of bank loans will depend primarily on our ability to generate adequate cash inflows from our operating activities. If we are unable to maintain sufficient work capital, our business, financial position, results of operations and prospects would be materially and adversely affected.

We recorded negative operating cash flow for the years ended December 31, 2010 and 2011. If we continue to have negative operating cash flow in the future, our liquidity and financial condition may be materially and adversely affected.

We recorded negative operating cash flow of approximately RMB8.4 million and RMB2.3 million for the years ended December 31, 2010 and 2011, respectively. We recorded negative operating cash flow mainly because of an increase in inventories and trade and other receivables for the years ended December 31, 2010 and 2011, a decrease in trade and other payables to our suppliers, OEMs and related parties and an increase in pledged deposits due to our increased use of bills as a payment method for the year ended December 31, 2011. We cannot assure you that we will be able to record positive operating cash flow in the future. Our liquidity and financial condition may be materially and adversely affected should our future operating cash flow become negative, and we can give no assurance that we will have sufficient cash from other sources to fund our operations. If we resort to other financing activities to generate additional cash, we will

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incur additional financing costs and we cannot guarantee that we will be able to obtain the financing on terms acceptable to us or at all.

We are heavily dependent on certain of our key personnel and design and technical personnel. Our inability to attract, retain and motivate qualified personnel could adversely affect our business and growth prospects.

Our success depends heavily on our ability to attract, retain and motivate key personnel, including senior managerial, design and technical personnel. In particular, we rely on the continued services of our executive directors, Mr. Ding and Mr. Ding Peiyuan, as well as our senior management members, including but not limited to Ms. Ding Lizhen and Mr. Gu Jishi. Mr. Ding, Mr. Ding Peiyuan and Ms. Ding Lizhen have been with us since the inception of our business. We have not subscribed for key-man life or similar insurance covering our key executives, design and technical personnel. If we lose the services of any of these key employees and cannot replace them with personnel with comparable experience and expertise in a timely manner, our business, financial conditions, results of operations and prospects may be materially and adversely affected.

We may fail to execute our growth strategy or maintain our growth rate.

We have achieved significant growth in turnover in recent years. Our turnover increased from RMB327.0 million for the year ended December 31, 2010 to RMB392.4 million for the year ended December 31, 2011 and further to RMB520.0 million for the year ended December 31, 2012, and our turnover increased from RMB176.5 million for the six months ended June 30, 2012 to RMB253.2 million for the six months ended June 30, 2013. However, our rapid growth will impose significant additional responsibilities on our management, including the need to raise working capital, to identify, recruit, train and integrate additional employees, to oversee the coordination and cooperation with our OEMs and distributors. In addition, rapid and significant growth may place a strain on our administrative and operational infrastructure, in particular on our internal controls and financial reporting processes and systems. As our operations expand, we expect that additional resources will be required to manage new relationships with additional distributors and department store chains, as well as with other third parties, including OEMs, raw material suppliers, equipment providers, consultants and others. Our ability to manage our working capital, operations and growth will require us to continue to improve our operational, financial and management controls, reporting systems and procedures. Furthermore, as part of our expansion plan, we have entered into a property pre-purchase agreement with Shanghai Fashitu Investment Group Co., Ltd. (上海法詩圖投資集團有限公司) in June 2013 (the “Pre-purchase Agreement”) to purchase an office building (the “Shanghai Office”) to which we plan to relocate our design and research and development center. According to the Pre-purchase Agreement, Shanghai Fashitu Investment Group Co., Ltd. (上海法詩圖投資集團有限公司) is scheduled to enter into a formal purchase agreement with us by October 2014. In the event that we are unable to complete the transaction for our Shanghai Office, there is no assurance that we will be able to find another property for our new design and research and development center, which in turn will adversely affect our expansion plan. If we are unable to effectively execute our growth strategy or manage our growth, it may be difficult for us to execute our business strategies. A decrease in the market demand for our products and the corresponding decline in the sales of our products could materially and adversely affect our business, financial condition, results of operations and prospects.

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Our sales are subject to seasonality, which could cause our results of operations to fluctuate.

Our industry has historically experienced seasonality, which we expect to continue. See “Financial Information — Factors Affecting Our Results of Operations — Seasonality”. In addition, extreme or unusual weather conditions, such as extended periods of warm weather during the winter season or cool weather during the summer season could render a portion of our inventory incompatible with such unseasonable conditions and may thus affect our sales. Our quarterly operating results may also fluctuate from period to period based on changes in consumer demand and the seasonality of consumer spending on children’s apparel products. As a result, any comparison of our sales and operating results between different periods within a single financial year or between different periods in different financial years is not necessarily meaningful and cannot be relied on as indicators of our performance. Our results of operations are likely to continue to fluctuate due to seasonality.

Some of our distributors have, in the past, failed to pay us for their purchases in a timely manner. If such failure to make timely payment continues in the future, it could materially and adversely affect our business, financial condition, results of operations and prospects.

Our distributors place advance purchase orders at our sales fairs and we typically require them to pay in full for our products upon delivery. However, we may not be able to receive payment for our products on time if our distributors encounter financial and operating difficulties. We grant credit limits of up to 90 days. Our trade receivables and average turnover days of our trade receivables increased significantly from RMB49.0 million and 30 days as of December 31, 2010 to RMB115.6 million and 77 days as of December 31, 2011 and further to RMB201.8 million and 111 days as of December 31, 2012. As of June 30, 2013, our trade receivables and average turnover days of our receivables were RMB157.6 million and 128 days, respectively. We cannot assure you that our distributors will pay us for their purchases in timely manner or at all in the future. If our distributors fail to pay us in a timely manner, our financial condition and results of operations may be materially and adversely affected.

We may not be able to adequately protect our intellectual property rights, which could harm our brand and our business.

We believe our trademarks and other intellectual property rights are crucial to our success. Our principal intellectual property rights include our trademarks for the “redkids” brand. Although we rely on the registration of trademarks and applicable laws to protect our intellectual property rights, these measures may not be sufficient to prevent misappropriation of our intellectual property rights. There is no assurance that third parties will not infringe on our intellectual property rights. Our efforts to enforce or defend our intellectual property rights may not be adequate, may require significant attention from our management and may be costly. We may have to initiate legal proceedings to defend the ownership of our trademarks or brand against any infringement by third parties, which may be costly and time-consuming, and we might be required to devote substantial management time and resources in an attempt to achieve a favorable outcome. Furthermore, the outcome of any legal actions to protect our intellectual property rights may be uncertain. If we are unable to adequately protect or safeguard our intellectual property rights, our business, financial condition, results of operations and prospects may be adversely affected.

In addition, as permitted by the PRC laws, other parties may register trademarks which may look similar to our registered trademarks under certain circumstances, which may cause confusion

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among consumers. We may not be able to prevent other parties from using trademarks that are similar to ours and our consumers may confuse our products with lower quality third-party products with similar trademarks. In such case, the goodwill and value of our trademarks and the public perception of our brand and our image may be adversely affected by the inferior quality of the products and services provided by third parties who use trademarks similar to ours. A negative perception of our brand and image could have a material and adverse effect on our sales, and therefore on our business, financial condition, results of operations and prospects.

Our business could be adversely affected by claims from third parties for possible infringement of their intellectual property rights.

We may face claims from time to time that our products infringe upon the intellectual property rights of third parties, including our competitors. Defending such claims may require significant attention from our management and may be costly. If any legal proceeding against us for infringement of intellectual property rights is successful, we may be ordered to be responsible for the losses incurred by the claiming parties due to our infringement of their intellectual property rights. Further, if we are unable to obtain a license for the usage of such intellectual property rights on acceptable terms or at all or we are unable to design around such intellectual property rights, we may be prohibited from manufacturing or selling products which are dependent on the usage of such intellectual property rights. In such cases, we may experience a material and adverse effect on our business and reputation, and these types of proceedings and their consequences could divert our management's attention from our business, all of which could have a material and adverse effect on our business, financial condition, results of operations and prospects.

Our ability to obtain additional financing may be limited, which could delay or prevent the achievement of our business goals.

During the Track Record Period, we financed our working capital and capital expenditure needs primarily through capital contributions by shareholders and cash from operating and financing activities. We expect our working capital and capital expenditure needs to increase in the future as we continue to expand and enhance our business, including our design, research and development capabilities and establishing our self-operated retail outlets. Our ability to raise additional capital will depend on the success of our current business and the successful implementation of our key strategic initiatives, financial, economic and market conditions and other factors, some of which are beyond our control. We may not be successful in raising the required capital at a reasonable cost and at the required times or at all. Further, equity financings may have a dilutive effect on our Shareholders. If we are unsuccessful in raising additional capital or if new capital funding costs are higher than our prior capital funding costs, our operations and development programs may be materially and adversely impacted, with similar effects on our business, financial condition, results of operations and prospects.

Our products are subject to relevant quality and safety standards. Any failure to adhere to quality and safety standards in the relevant jurisdictions may adversely affect our business, financial condition, results of operations and prospects.

We are subject to the quality and safety requirements and standards in the jurisdictions where we operate. During the Track Record Period, there were two incidents with regard to three of our products. In the first incident, a particular batch of our deep-blue children's jeans ("Product One") was found to have aromatic amine levels that exceeded the national standard by 271 mg/kg

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or approximately 14 times. To the best of our knowledge, daily exposure to aromatic amine and ammonia could cause adverse effects to an individual's health, including the development of cancer. In the second incident, a particular batch of our boy's knitted jacket and a batch of our boy's hoodie did not pass certain national quality standards. Our maximum potential liability under the two incidents in terms of fines from the relevant government authorities is RMB5.4 million, and the reputation of our products may suffer as a result of these two incidents.

In addition, we may face civil lawsuits brought against us by end customers who believe they have suffered adverse effects on their health from the usage of the particular batch of Product One involved in a quality control incident. Under the PRC Product Quality Law (產品質量法) and the PRC Tort Law (侵權責任法), we are liable for medical and other expenses resulting from adverse effects on our end consumers' health caused by our products. We cannot quantify our potential maximum liability relating to the quality control incident as of the Latest Practicable Date because our maximum liability relating to this quality control incident will be determined by (i) the number of claims and lawsuits brought against us and (ii) the amount of damage claimed under each claim and/or lawsuit. Our business, financial condition, results of operations and prospects may be adversely affected by the liabilities arising from the potential lawsuits. For the views from our Directors and our PRC legal adviser and for confirmations from two nationally recognized inspection agencies in respect to the first incident, please refer to "Business — Quality Control — Quality Control Incidents — First Quality Control Incident" of this prospectus. We have adopted and will continue to adopt stringent quality control measures so that all our products will be in compliance with the relevant quality and safety requirements and standards under PRC laws and regulations. If we fail to adhere to relevant quality and safety requirements and standards, our reputation may be harmed, and our business, financial condition, results of operations and prospects may be materially and adversely affected.

We may be exposed to product liability, property damage or personal injury claims, which may adversely affect our reputation and business.

We may be exposed to product liability claims and we may, as a result, have to expend significant financial and managerial resources to defend against such claims. Such product liability claim risks may increase as legal concepts in product liability begin to develop and mature in the PRC. Regardless of the merits of a claim or dispute, we may expend significant efforts and costs to defend against such claims and may suffer material damage to our reputation. If we lose such a case, we may be subject to monetary damages. We may also be subject to government investigations, which may lead to fines and sanctions against us and result in negative public perception of our brand. Any of the above events could have a material and adverse effect on our business, financial condition, results of operations and prospects.

We may be required to make additional contributions of Mandatory Social Insurance and housing provident fund under PRC national laws and regulations.

Under the relevant PRC laws and regulations, we are required to contribute to pension insurance, unemployment insurance, maternity insurance, work-related injury insurance and medical insurance (the "Mandatory Social Insurance") and housing provident funds for our employees. During the Track Record Period, we did not make all contributions to the Mandatory Social Insurance and housing provident funds for some of our employees located in the PRC.

For our unpaid contribution to the Mandatory Social Insurance accrued prior to the effectiveness of The Social Insurance Law of the PRC (中華人民共和國社會保險法) on July 1, 2011, the relevant authorities may require us to pay the outstanding amount within a prescribed time

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limit. If we fail to make the overdue contribution within such time limit, an additional late payment penalty at a daily rate of 0.2% of the outstanding amount may be imposed. For our unpaid contribution to the social insurance funds accrued after July 1, 2011, the relevant authorities may require us to pay the outstanding amount within the prescribed time limit with an additional late payment penalty at a daily rate of 0.05% from the due date. If we fail to make the overdue contribution within such time limit, the relevant authorities may also impose a fine on us equal to an amount between 100% and 300% of the total amount of the overdue contribution. For our unpaid housing provident fund contributions, the relevant authorities may demand that we pay our unpaid housing provident fund contributions within a prescribed time limit. If we fail to comply, the relevant authorities may apply for an order for payment from the relevant PRC court.

We cannot assure you that we will not be subject to any order to rectify non-compliance in the future. Nor can we assure you that there are no or will not be any employee complaints regarding the payment of the Mandatory Social Insurance and housing provident funds against us or that we will not receive any claims with respect to the Mandatory Social Insurance and housing provident fund contributions under national laws and regulations. In addition, we may incur additional expenses to comply with such laws and regulations by the PRC government or relevant local authorities.

Certain properties leased by us are subject to irregularities.

We leased two properties in Shanghai which we use as our design and research and development center and office space. We have not registered our lease contracts with the relevant PRC authorities. For one of the properties, we could not register our lease contract because our landlord could not provide us with the relevant building ownership certificates with respect to such structures. According to our PRC legal adviser, Jingtian & Gongcheng, the relevant PRC authorities may require us to apply for such registration. If we fail to do so, we may be liable for fine of not less than RMB1,000 and not more than RMB10,000 per incident. According to our PRC legal adviser, Jingtian & Gongcheng, our maximum potential liabilities arising from such lease registration irregularities amount to RMB20,000.

Our future results may be adversely affected by expenses incurred in connection with share-based payments.

In the course of the Corporate Reorganization, Think Wise transferred certain Shares to SHKSF in settlement of service fees payable to it for the corporate advisory and financing consultancy services provided by it to the Group. These Shares constituted share-based payment and are accounted for as an expense of our Company. The fair value of these services in connection with the provision of corporate advisory and financial consulting services to the Group amounted to approximately RMB1.9 million and has been recognized as an expense in the consolidated statement of comprehensive income for the six months ended June 30, 2013.

In addition, we have granted certain options pursuant to the Pre-IPO Share Option Scheme. The fair value of the options granted under the Pre-IPO Share Option Scheme will be recognized as an expense in profit or loss during the vesting period of such options. The costs of the share options granted under the Pre-IPO Share Option Scheme may adversely affect our financial condition and results of operations in the future years and it is expected that a sum in the amount of not more than RMB200,000 will be recognized as an expense in the consolidated statement of comprehensive income for the year ending December 31, 2013 of our Company.

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RISK RELATING TO CONDUCTING BUSINESS IN THE PRC

A determination of overall market conditions and credit availability from lending institutions in the PRC may significantly affect our business and financial performance.

Our ability to successfully expand our business operations in the PRC depends on the overall macroeconomic conditions and other market conditions of the PRC and on the credit availability from lending institutions. Concerned with inflation and over-heating of the PRC economy, the PRC government has taken a series of measures in recent years, including continuously increasing the deposit reserve ratio, as a result of which commercial banks in the PRC have increased interest rates, reducing credit availability in the PRC. Stricter lending policies in the PRC may affect our ability to obtain external financing, which may reduce our ability to implement our expansion strategies and may also affect our distributors' ability to obtain external financing and the spending habits of our consumers. We cannot assure you that the PRC government will not implement any additional measures to tighten lending standards or that, if any such measure is implemented, it will not adversely affect our future results of operations or profitability.

The political, economic and social conditions in the PRC are experiencing changes and reforms, which may adversely affect our business, financial condition, results of operations and prospects.

For the past three decades, the PRC government has implemented economic reform and measures emphasizing the utilization of market forces in the development of the PRC economy. Although we believe these economic reforms and measures will have a positive effect on the PRC's overall and long-term development, the resulting changes may also have any adverse effect on our current or future business, financial condition, results of operations and prospects. Despite these economic reforms and measures, the PRC government continues to play a significant role in regulating industrial development and the allocation of natural resources, production, pricing and management of currency, and there can be no assurance that the PRC government will continue to pursue a policy of economic reform or that the current direction of reform will continue.

Demand for our products and our business, financial condition, results of operations and prospects may be adversely affected by the following factors:

- political instability or changes in social conditions in the PRC;
- changes in laws, regulations and administrative directives;
- measures which may be introduced to control inflation or deflation;
- changes in the rate or method of taxation; and
- reduction in tariff protection and other import and export restrictions.

These factors are affected by a number of variables which are beyond our control.

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Restrictions on foreign exchange and payments of dividends may limit our operating subsidiary's ability to remit payments to us.

At present, the Renminbi is not freely convertible to other currencies, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. Under current PRC laws and regulations, payments of current account items, including profit distributions, interest payments and operation-related expenditures, may be made in foreign currencies without prior approval from SAFE, but are subject to procedural requirements including presenting relevant documentary evidence of such transactions and conducting such transactions at designated foreign exchange banks within China which have the licenses to carry out foreign exchange business. Strict foreign exchange control continues to apply to capital account transactions. These transactions, including repayment of loan principal, distribution of return on direct capital investment and investment in negotiable instruments, must be approved by or registered with SAFE. Under our current structure, our source of funds primarily consists of dividend payments from our subsidiary in the PRC. We cannot assure you that we will be able to meet all of our foreign currency obligations or to remit profits out of China. If future changes in relevant regulations were to place restrictions on the ability of our subsidiary to remit dividend payments to us, our liquidity and ability to satisfy our third-party payment obligations and our ability to distribute dividends in respect of our Shares could be materially and adversely affected.

We may be subject to PRC income tax for our worldwide income if we are recognized as PRC tax resident.

Under the EIT Law, if an enterprise incorporated outside the PRC has its "actual management" located within the PRC, such enterprise may be recognized as a PRC tax resident enterprise and be subject to the unified enterprise income tax rate of 25% on its worldwide income. Since most of our management is currently located in the PRC, we may be subject to PRC income tax at the rate of 25% on our worldwide income. Under the implementation rules for the EIT Law, "de facto management bodies" is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. In April 2009, the SAT further specified certain criteria for the determination of the "de facto management bodies" for foreign enterprises which are controlled by PRC enterprises, but as of the Latest Practicable Date, there had been no official tax rules promulgated regarding the determination of the "de facto management bodies" for foreign enterprises which are not controlled by PRC enterprises like ourselves. However, as substantially all of our management is based in China and may remain in China in the future, we may be treated as a PRC resident enterprise for PRC enterprise income tax purposes. If we are deemed as a PRC resident enterprise, we will be subject to PRC enterprise income tax at the rate of 25% on our worldwide income which may have a material and adverse effect on our business, financial condition, results of operation and prospects.

According to the EIT Law, dividends received by a qualified PRC tax resident enterprise from another qualified PRC tax resident enterprise are exempted from enterprise income tax. The EIT Law and its implementation rules are relatively new and ambiguities exist with respect to the interpretation of the provisions relating to resident enterprises. In that case, dividend income we receive from our PRC subsidiaries may be exempt from PRC enterprise income tax. However, as there is still uncertainty as to how the EIT Law and its implementation rules will be interpreted and implemented, we cannot assure you that we are eligible for PRC enterprise income tax exemptions or reductions.

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Dividends from our PRC subsidiaries and dividends on our shares and gains on the sales of our shares may be subject to PRC withholding taxes.

We are a Cayman Islands holding company and all of our income is ultimately derived from dividends that are paid by our subsidiary in the PRC. Under the EIT Law and its implementation rules, dividends payable to foreign enterprise investors which are non-resident enterprises that do not have an establishment or place of business in the PRC or that have an establishment or place of business but the relevant income is not effectively connected with the establishment or place are subject to a 10% withholding tax, which may be reduced if a foreign enterprise investor is eligible for the benefits of a tax treaty with the PRC that provides for a different withholding arrangement. Pursuant to a tax arrangement between the PRC and Hong Kong, companies incorporated in Hong Kong may be subject to withholding taxes at a rate of 5% on dividends they receive from their PRC subsidiaries of which they directly hold at least 25% equity interests. As dividends from our PRC subsidiary will be paid to us through Red Kids HK, our Hong Kong subsidiary that owns 100% equity interests in our PRC subsidiary, those dividends may be subject to a withholding tax at the rate of 5%. However, on October 27, 2009, the SAT promulgated the Circular on How to Understand and Recognize the “Beneficial Owner” in Tax Treaties, or Circular 601. Circular 601 clarifies that a beneficial owner is a person having actual operations and this person could be an individual, a company or any other entity. Circular 601 expressly excludes a “conduit company” that is established for the purposes of tax avoidance and dividend transfers and is not engaged in actual operations such as manufacturing, sales and management from being a beneficial owner. It is still unclear how Circular 601 is being implemented in practice by the SAT or its local counterparts. If Red Kids HK is not deemed to be a beneficial owner of Red Kids China, those dividends may be subject to withholding tax at the rate of 10%, instead of 5%.

Moreover, under the EIT Law and its implementation rules, as discussed above, we may in the future be treated as a PRC tax resident enterprise by the PRC taxation authorities. In that case, dividends on our Shares and capital gains from sales of our Shares realized by foreign shareholders may be regarded as income from “sources within the PRC” and may be subject to a 10% withholding tax, subject to any reduction by an applicable tax treaty. If foreign shareholders are required to pay PRC withholding tax on dividends on our Shares or capital gains from any sales of our Shares, the value of the investment in our Shares may be materially and adversely affected.

The PRC legal system has inherent uncertainties regarding the interpretation and enforcement of PRC laws and regulations which could limit the legal protections available to investors.

Substantially all of our operations are conducted in the PRC. The PRC legal system is a civil law system based on written statutes, and prior court decisions can only be cited as reference and have almost no precedential value. Since 1979, the PRC government has been developing a comprehensive system of laws, rules and regulations in relation to economic matters, such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because of the limited volume of published cases and their non-binding nature, the interpretation and enforcement of these laws, rules and regulations involve some degree of uncertainty, which may lead to additional restrictions and uncertainty for our business and uncertainty with respect to the outcome of any legal action investors may take against us in the PRC. In addition, we cannot predict future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof or the pre-emption of local regulations by national laws. Any changes to such laws and regulations may materially increase our costs and regulatory exposure in complying with them.

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RISKS RELATING TO THE GLOBAL OFFERING AND OUR SHARES

There has been no prior public market for our shares and an active trading market for our shares may not develop.

Prior to the Global Offering, there has been no public market for our Shares. The initial issue price range for our Shares was the result of negotiations among us and the Joint Bookrunners on behalf of the Underwriter(s), and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. We have applied for listing of and permission to deal in our Shares on the Stock Exchange. There is no assurance that the Global Offering will result in the development of an active, liquid public trading market for our Shares. Factors such as variations in our revenue, earnings and cash flows or any other developments may affect the volume and price at which our Shares will be traded.

The liquidity and market prices of our Shares following this Global Offering may be volatile. The price at which the Shares will trade after the Global Offering will be determined by the marketplace, which may be influenced by many factors, some of which are beyond our control, including:

- our financial results;
- changes in securities analysts' estimates, if any, of our financial performance;
- the history of and the prospects for us and the industry in which we compete;
- an assessment of our management, our past and present operations and the prospects for our business;
- timing of our future revenue and cost structures such as the views of independent research analysts, if any;
- the present state of our development;
- the valuation of publicly traded companies that are engaged in business activities similar to ours; and
- general market sentiment regarding the children's product industry.

In addition, the Stock Exchange has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of companies quoted on the Stock Exchange. As a result, investors in our Shares may experience volatility in the market price of their Shares and a decrease in the value of their Shares regardless of our operating performance or prospects.

Potential investors will experience immediate and substantial dilution as a result of the Global Offering and could face future dilution as a result of future financings.

Potential investors will pay a price per Share that substantially exceeds the per Share value of our net tangible assets and will therefore experience immediate dilution when potential investors purchase the Offer Shares in the Global Offering. As a result, if we were to distribute our net tangible assets to the Shareholders immediately following the Global Offering, potential investors would receive less than the amount they paid for their Shares.

RISK FACTORS

We believe that our current cash and cash equivalents, anticipated cash flows from operations and the proceeds from this offering will be sufficient to meet our anticipated cash needs for the foreseeable future. We may, however, require additional cash resources due to changed business conditions or other future developments relating to our existing operations, acquisitions or strategic partnerships. If additional funds are raised through the issuance of new equity or equity-linked securities of us other than on a pro rata basis to existing Shareholders, the percentage ownership of such Shareholders in us may be reduced, and such new securities may confer rights and privileges that take priority over those conferred by the Shares. Alternatively, if we meet such funding requirements by way of additional debt financing, we may have restrictions placed on us through such debt financing arrangements which may:

- limit our ability to pay dividends or require us to seek consent prior to the payment of dividends;
- require us to dedicate a substantial portion of our cash flows from operations to service our debt, thereby reducing the availability of our cash flows to fund capital expenditures, working capital requirements and other general corporate needs; and
- limit our flexibility in planning for or reacting to changes in our business and our industry.

Dividends paid in the past may not be indicative of the amounts of future dividend payments or our future dividend policy.

Historical dividend distributions by our subsidiaries are not indicative of our future distribution policy and we give no assurance that dividends of similar amounts or at similar rates will be paid in the future. Any future dividend declaration and distribution by us will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors deem relevant. Any declaration and payment as well as the amount of dividends will also be subject to our constitutional documents and the Companies Law as well as (where required) the approval of Shareholders. In addition, our future dividend payments will depend upon the availability of dividends received from our subsidiaries in the PRC, which are subject to restrictions described in the paragraphs headed “Dividends from our PRC subsidiaries and dividends on our Shares and gains on the sales of our Shares may be subject to PRC withholding taxes” in this section. See “Financial Information — Dividend Policy” in this prospectus.

Sales of substantial amounts of our Shares in the public market after the Global Offering could adversely affect the prevailing market price of our offer Shares.

Sales of substantial amounts of Shares in the public market after the completion of the Global Offering or the perception that these sales could occur could adversely affect the market price of our Shares. There will be 800,000,000 Shares outstanding immediately following the Global Offering, assuming no exercise of the Over-allotment Option and that no options granted under the Pre-IPO Share Option Scheme and to be granted under the Share Option Scheme were exercised upon the Listing. We and certain of our Shareholders, subject to certain exceptions, have agreed to a lock-up arrangement with the Underwriters until six months after the Listing Date. Shares which are not subject to a lock-up arrangement represent approximately 20% of the total issued share capital immediately following the Global Offering (assuming no exercise of the Over-allotment Option and that no options granted under the Pre-IPO Share Option Scheme and to be granted under the Share Option Scheme were exercised upon the Listing) and will be freely tradable immediately following the Global Offering.

RISK FACTORS

Forward-looking information included in this prospectus may involve risks.

Due to the direct or indirect influence of the risks, uncertainties and assumptions detailed in this section, our forward-looking events and prospective development discussed in this prospectus might not occur in the way we expect or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

You may face difficulties in protecting your interests under the laws of the Cayman Islands.

Our corporate affairs are governed by, among other things, our Memorandum and Articles and the Companies Law and common law of the Cayman Islands. The rights of Shareholders to take action against our Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in other jurisdictions. Such differences may mean that the remedies available to the minority shareholders may be different from those they would have under the laws of other jurisdictions.

We cannot guarantee the accuracy of certain facts, forecasts and other statistics with respect to the PRC, the PRC and global economy, and the PRC and global children's product industry contained in this prospectus.

Certain facts, forecasts and other statistics in this prospectus relating to the PRC, the PRC and global economy, individual markets within the PRC and the PRC and global children's product industry have been derived from official government publications and we can guarantee neither the quality nor the reliability of such source materials. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by our Company, the Sole Global Coordinator, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers or any of the Underwriters, any of their respective directors and advisers or any other persons or parties involved in the Global Offering, and no representation is given as to its accuracy. In all cases, investors should declare how much weight or importance they should attach to or place on such facts, forecasts or statistics.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, we have sought the following waiver from strict compliance with the relevant provisions of the Listing Rules:

MANAGEMENT PRESENCE

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive Directors must be ordinarily resident in Hong Kong. Since our principal business operations are conducted in the PRC, members of our senior management team (other than Mr. Ng Cheuk Him, one of the joint company secretaries and the chief financial officer of our Group, who is ordinarily resident in Hong Kong) are and will therefore be expected to continue to be based in the PRC. Further, none of our executive Directors are expected to be based in Hong Kong upon the Listing. Accordingly, we have applied to the Stock Exchange for a waiver from strict compliance with the requirement under Rule 8.12 of the Listing Rules.

We have received from the Stock Exchange a waiver from compliance with Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) we have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal communication channel with the Stock Exchange and will ensure that they comply with the Listing Rules at all times. The two authorized representatives appointed are Mr. Ding, an executive Director, the chief executive officer and the chairman of the Board of our Company, and Mr. Ng Cheuk Him, one of the joint company secretaries of our Company and the chief financial officer of our Group, who is ordinarily resident in Hong Kong. Each of the authorized representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon request and will be readily contactable by respective mobile, office phone number, e-mail address and facsimile number. Each of the two authorized representatives has been duly authorized to communicate on our behalf with the Stock Exchange;
- (b) we will appoint RHB OSK Capital Hong Kong Limited to act as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules, who will act as our additional communication channel with the Stock Exchange for a period commencing on the Listing Date and ending on the date on which we distribute the annual report for the first full financial year after the Listing Date in accordance with Rule 13.46 of the Listing Rules;
- (c) both the authorized representatives have means to contact all Directors (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact the Directors for any matters. We will implement a policy whereby (i) each Director (including the independent non-executive Directors) will provide his mobile, office phone number, e-mail address and facsimile number to the authorized representatives; (ii) each Director (including the independent non-executive Directors) will provide valid phone numbers or means of communication to the authorized representatives when he travels; and (iii) each Director (including the independent non-executive Directors) will provide his mobile, office phone number, e-mail address and facsimile number to the Stock Exchange;
- (d) all of the executive Directors and independent non-executive Directors who are not ordinarily resident in Hong Kong have confirmed that they possess valid travel

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

documents to visit Hong Kong and will be able to meet with the Stock Exchange upon reasonable notice when required.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Our Group has entered into, and expects to continue after the Listing, certain transaction which will constitute non-exempt continuing connected transaction under Chapter 14A of the Listing Rules. We have applied for, and the Stock Exchange has granted, a conditional waiver under Rule 14A.42(3) of the Listing Rules from compliance with the announcement requirements under the Listing Rules in respect of such non-exempt continuing connected transaction.

The details of such waiver are set out in the section headed “Connected Transactions” of this prospectus.

JOINT COMPANY SECRETARIES

Pursuant to Rule 8.17 of the Listing Rules, an issuer must appoint a company secretary who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary.

Our principal business operations are conducted in the PRC and it is expected that, for the foreseeable future, the Group will not have a sufficient management presence in Hong Kong. As such, it is vitally important that the company secretary of the Company should possess sufficient knowledge and experience to discharge the functions of a company secretary. The Company has appointed Mr. Ng Cheuk Him and Ms. Lu Yanping as the joint company secretaries of our Company.

As Mr. Ng Cheuk Him holds the qualifications of a certified public accountant and is a member of the Hong Kong Institute of Chartered Secretaries, he is qualified to act as the joint company secretary of our Company. Whilst the Directors consider Ms. Lu Yanping is capable of discharging her duty as a joint company secretary of our Company by virtue of her background and experience (as detailed in the section headed “Directors and Senior Management” of this prospectus), in view that she does not currently possess the academic or professional qualifications considered to be acceptable by the Stock Exchange under the notes to Rule 3.28, we have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of Rule 8.17 of the Listing Rules and the following arrangements have been made to satisfy those requirements:

- (i) Our Company has appointed, and will continue to do so for a minimum period of three years after the Listing Date, Mr. Ng Cheuk Him, (or in the event that Mr. Ng Cheuk Him ceases to be in a position to provide service to our Company, his replacement), who meets all the requirements under Rule 8.17 of the Listing Rules, to act as our joint company secretary to provide assistance and guidance to Ms. Lu Yanping so that she is able to acquire the relevant knowledge and experience as required under the Listing Rules in order to discharge her functions as a joint company secretary of the Company;
- (ii) The waiver would be for an initial term commencing from the Listing Date and ending on the date which is three years therefrom, a period which should be sufficient for Ms. Lu Yanping to acquire the relevant knowledge and experience required by the Stock Exchange;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (iii) We will further ensure that Ms. Lu Yanping will have access to the relevant training and support to enable her to familiarize herself with the Listing Rules and the duties required of a company secretary of an issuer listed on the Stock Exchange. Prior to the Listing, the Company's Hong Kong legal advisers have provided training on the Listing Rules to Ms. Lu Yanping. In addition, Ms. Lu Yanping will endeavor to familiarize herself with the Listing Rules during the three-year period from the Listing Date; and
- (iv) Upon expiry of the three-year period from the Listing Date, our Company will evaluate Ms. Lu Yanping's experience in order to determine if she has acquired the qualifications required under Rule 3.28 of the Listing Rules, and whether on-going assistance should be arranged so that Ms. Lu Yanping's appointment as a joint company secretary of the Company continues to satisfy the requirements under Rule 8.17 of the Listing Rules.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Law, the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to us. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Sole Global Coordinator, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, partners, agents, or advisers or any other party involved in the Global Offering.

FULLY UNDERWRITTEN

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering will be underwritten by the Hong Kong Underwriters. The Global Offering comprises the Hong Kong Public Offering of initially 16,000,000 Offer Shares and the International Offering of initially 144,000,000 Offer Shares subject, in each case, to reallocation on the basis described in the section headed "Structure of the Global Offering" in this prospectus. For applicants under the Hong Kong Public Offering, this prospectus and the **WHITE**, **YELLOW** and **GREEN** Application Forms set forth the terms and conditions of the Hong Kong Public Offering.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which is expected to be determined by agreement between the Joint Bookrunners, on behalf of the Underwriters, and our Company on or before January 7, 2014 or such later time as may be agreed by the Joint Bookrunners, on behalf of the Underwriters, and our Company, but in any event no later than January 13, 2014. If the Joint Bookrunners, on behalf of the Underwriters, and our Company are unable to reach agreement on the Offer Price by January 13, 2014, the Global Offering will not proceed and will lapse.

SELLING RESTRICTIONS

Each person acquiring the Offer Shares will be required, and is deemed by his acquisition of the Offer Shares, to confirm that he is aware of the restriction on offers or sales of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

No action has been taken in any jurisdiction other than Hong Kong to permit a public offering of the Offer Shares or the distribution of this prospectus. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Our Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue as at the Latest Practicable Date and to be issued as mentioned herein including the Offer Shares (including any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option), the Shares to be issued pursuant to the Capitalization Issue and any Shares which may fall to be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme and options to be granted under the Share Option Scheme. No part of our Company's share or loan capital is listed or dealt in on any other stock exchange. At present, our Company is not seeking or proposing to seek the listing of, or permission to deal in, the Shares on any other stock exchange. All the Shares will be registered on the register of our members in order for them to be traded on the Main Board of the Stock Exchange.

Under section 44B(1) of the Companies Ordinance, any allocation made in respect of any application will be invalid if permission for listing of, or dealing in, the Offer Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the three weeks, be notified to the Company by the Stock Exchange.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of the subscription for, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to the Offer Shares, you should consult an expert. Our Company, the Sole Global Coordinator, the Joint Sponsors, the Joint Bookrunners and the Joint Lead Managers or any of the Underwriters, their respective directors, officers, agents or advisers or any other party involved in the Global Offering do not accept responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, the Offer Shares.

HONG KONG REGISTER OF MEMBERS AND STAMP DUTY

All of the Shares issued pursuant to the Global Offering will be registered on our register of members to be maintained in Hong Kong by our Hong Kong share registrar, Computershare Hong Kong Investor Services Limited. Our principal register of members will be maintained by our principal registrar and transfer agent, Royal Bank of Canada Trust Company (Cayman) Limited, in the Cayman Islands.

Dealings in the Shares registered on our register of members in Hong Kong will be subject to Hong Kong stamp duty. The current rate of stamp duty in Hong Kong is 0.2% of the consideration or, if higher, the market value of the Shares being sold or transferred.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

PROCEDURES FOR APPLICATION FOR HONG KONG PUBLIC OFFER SHARES

The procedures for applying for the Hong Kong Public Offer Shares are set out in the section headed “How to Apply for the Hong Kong Public Offer Shares” and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure and conditions of the Global Offering, including details of the Over-allotment Option, are set out in the section headed “Structure of the Global Offering”.

OFFER SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Offer Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Offer Shares to be admitted into CCASS. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

EXCHANGE RATE

Solely for your convenience, this prospectus contains translations of certain Renminbi amounts into Hong Kong dollars and certain US dollar amounts into Hong Kong dollars at specified rates. No representation is made that the Renminbi or US dollar amounts could actually be converted into any Hong Kong dollar amounts at the rates indicated or at all. Unless we indicate otherwise, the translation of Renminbi into HK dollars was made at the rate of HK\$1.00 to RMB0.78923, the exchange rate prevailing on December 20, 2013, set by the PBOC for foreign exchange transactions, and translation of US dollars into Hong Kong dollars was made at the rate of US\$1.00 to HK\$7.7534, the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank as at December 13, 2013. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. As a result, any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding. Where information is presented in thousands or millions of units, amounts may have been rounded up or down.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<i>Executive Directors</i>		
Mr. Ding Peiji (丁培基)	Employee Dormitory Building A No. 168, Chongrong Street Economic Technology Development Zone Quanzhou Fujian PRC	Chinese
Mr. Ding Peiyuan (丁培源)	15B, Baoshan Garden Hai'an Road Donghai Subdistrict Quanzhou Fujian PRC	Chinese
Ms. Ding Lizhen (丁麗真)	Room 405, Building No.5 Fuxin Garden Fengze Street Quanzhou Fujian PRC	Chinese
Mr. Gu Jishi (顧及時)	No. 9, Unit 3 No. 7, Paotongshu Street Qingyang District Chengdu Sichuan PRC	Chinese
<i>Independent non-executive Directors</i>		
Mr. Leung Wai Yip (梁偉業)	Flat G, 17/F, Tower 8 Island Harbourview Tai Kok Tsui Kowloon Hong Kong	Canadian
Mr. Mei Wenjue (梅文珏)	Room 401, No. 55, Ouzhuang Cun East Huanshi Road Guangzhou Guangdong PRC	Chinese
Mr. Zhu Wenxin (祝文欣)	No. 104, Unit 1, Building No. 9 No. 9, East Henan Road Xinshi District Urumqi Xinjiang PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Global Coordinator	CCB International Capital Limited 12/F, CCB Tower 3 Connaught Road Central Central Hong Kong
Joint Sponsors	CCB International Capital Limited 12/F, CCB Tower 3 Connaught Road Central Central Hong Kong China Galaxy International Securities (Hong Kong) Co., Limited Unit 3501-7, 3513-14, 35/F, Cosco Tower 183 Queen's Road Central Sheung Wan Hong Kong
Joint Bookrunners and Joint Lead Managers	CCB International Capital Limited 12/F, CCB Tower 3 Connaught Road Central Central Hong Kong China Galaxy International Securities (Hong Kong) Co., Limited Unit 3501-7, 3513-14, 35/F, Cosco Tower 183 Queen's Road Central Sheung Wan Hong Kong Guotai Junan Securities (Hong Kong) Limited 27/F, Low Block, Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Legal advisers to our Company	<i>As to Hong Kong law:</i> Orrick, Herrington & Sutcliffe 43/F, Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong <i>As to PRC law:</i> Jingtian & Gongcheng 34/F, Tower 3, China Central Place 77 Jianguo Road, Chaoyang District Beijing 100025 PRC

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

	<p><i>As to Cayman Islands law:</i> Conyers Dill & Pearman (Cayman) Limited Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands</p>
Legal advisers to the Joint Sponsors and the Underwriters	<p><i>As to Hong Kong law:</i> Morrison & Foerster 33/F, Edinburgh Tower The Landmark 15 Queen's Road Central Hong Kong</p> <p><i>As to PRC law:</i> Commerce & Finance Law Offices 6/F, NCI Tower A12 Jianguomenwai Avenue Chaoyang District Beijing 100022 PRC</p>
Auditors and reporting accountants	<p>KPMG <i>Certified Public Accountants</i> 8/F, Prince's Building 10 Chater Road, Central Hong Kong</p>
Receiving bankers	<p>Standard Chartered Bank (Hong Kong) Limited 15/F, Standard Chartered Tower 388 Kwun Tong Road Kowloon Hong Kong</p> <p>China Construction Bank (Asia) Corporation Limited 22/F, CCB Centre 18 Wang Chiu Road Kowloon Bay Kowloon Hong Kong</p>

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman, KY1-1111 Cayman Islands
Principal place of business in Hong Kong	Room 1601, Ho King Commercial Centre 2-16 Fa Yuen Street Mong Kok, Kowloon Hong Kong
Headquarters and place of business in the PRC	No. 168, Chong Rong Street Economic Technology Development Zone Quanzhou City Fujian Province 362005 PRC
Company's website	www.redkids.com (<i>information contained in this website does not form part of the prospectus</i>)
Joint company secretaries	Mr. Ng Cheuk Him (吳卓謙) <i>HKICPA, HKICS</i> Ms. Lu Yanping (盧燕萍)
Authorized representatives	Mr. Ding Peiji (丁培基) Employee Dormitory Building A No. 168, Chongrong Street Economic Technology Development Zone Quanzhou Fujian PRC Mr. Ng Cheuk Him (吳卓謙) Flat E, 2/F., Leung Chau Building 78 Un Chau Street Sham Shui Po Kowloon Hong Kong
Audit committee	Mr. Leung Wai Yip (梁偉業) (<i>Chairman</i>) Mr. Mei Wenjue (梅文珏) Mr. Zhu Wenxin (祝文欣)
Remuneration committee	Mr. Mei Wenjue (梅文珏) (<i>Chairman</i>) Mr. Zhu Wenxin (祝文欣) Mr. Ding Peiyuan (丁培源)

CORPORATE INFORMATION

Nomination committee	Mr. Zhu Wenxin (祝文欣) (<i>Chairman</i>) Mr. Leung Wai Yip (梁偉業) Mr. Gu Jishi (顧及時)
Compliance adviser	RHB OSK Capital Hong Kong Limited
Principal bankers	China Construction Bank Corporation (Qingmeng sub-branch) China Construction Bank Complex Building Economic Technology Development Zone Quanzhou Fujian PRC Industrial and Commercial Bank of China Limited (Chidian sub-branch) Anta Building Dongshan Industrial Zone Chidian Town, Jinjiang Fujian PRC Agricultural Bank of China Limited (Quanzhou Economic-Technical Development Zone sub-branch) Jialong Modern City Detai Road Economical-Technical Development Zone Quanzhou Fujian PRC
Cayman Islands share registrar and transfer office	Royal Bank of Canada Trust Company (Cayman) Limited 4th Fl., Royal Bank House 24 Shedden Road, PO Box 1586 Grand Cayman KY1-1110 Cayman Islands
Hong Kong share registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17 th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong

INDUSTRY OVERVIEW

This section contains information and statistics relating to the PRC economy and the industry in which we operate. We have derived such information and data partly from publicly available government and other third-party sources, which have not been independently verified by us, the Joint Sponsors, Joint Bookrunners and Joint Lead Managers, any of the Underwriters, any of our or their respective directors, officers, representatives or affiliates, or any other party involved in the Global Offering. Our Directors have taken reasonable care in the reproduction of such information, which may not be consistent with other information compiled within or outside the PRC. We commissioned Frost & Sullivan, an independent market research firm, as an industry consultant to prepare the Frost & Sullivan Report. We believe that the sources of the information in this section are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any part has been omitted that would render such information false or misleading.

Unless otherwise specified, the market and industry information and data relating to the PRC children's product industry presented in this section and elsewhere in this prospectus has been derived from the Frost & Sullivan Report.

SOURCES OF INFORMATION

We commissioned Frost & Sullivan to conduct analysis of the PRC children's apparel market and other economic data and to prepare the Frost & Sullivan Report. We have agreed to pay a fee of approximately RMB0.9 million for the Frost & Sullivan Report, which will be paid prior to the Listing. Our Directors are of the view that the payment of the fee does not affect the fairness of conclusions drawn in the Frost & Sullivan Report. Frost & Sullivan is an independent consultant founded in 1961 and has over 35 global offices with more than 1,800 industry consultants, market research analysts, technology analysts and economists. Its services include technology research, market research, economic research, corporate best practices advising, training, customer research, competitive intelligence and corporate strategy. The Frost & Sullivan Report includes both historical and forecast information on the Chinese retail industry, the children's apparel market and other economic data. Frost & Sullivan undertook both primary and secondary independent research through various resources within the PRC Children's apparel industry. Primary research involved interviewing children's apparel manufacturers, industry experts, key distributors, consumers and a market survey, which was based on face-to-face and telephone interviews with 1,834 respondents in 12 cities across China (the "Frost & Sullivan Survey"). Secondary research involved reviewing industry reports and independent research reports and data in Frost & Sullivan's own research database. In the preparation of its report, Frost & Sullivan used secondary research as an initial research platform. In-depth telephone and face-to-face interviews were conducted with various manufacturers and distributors as the key methods used by Frost & Sullivan to obtain the information and data for the preparation of its report.

All statistics are reliable and are based on information available as of the date of the Frost & Sullivan Report. Other sources of information, including government, trade associations or market place participants, may have provided some of the information on which the analysis or data is based.

INDUSTRY OVERVIEW

ECONOMIC GROWTH OF THE PRC ECONOMY

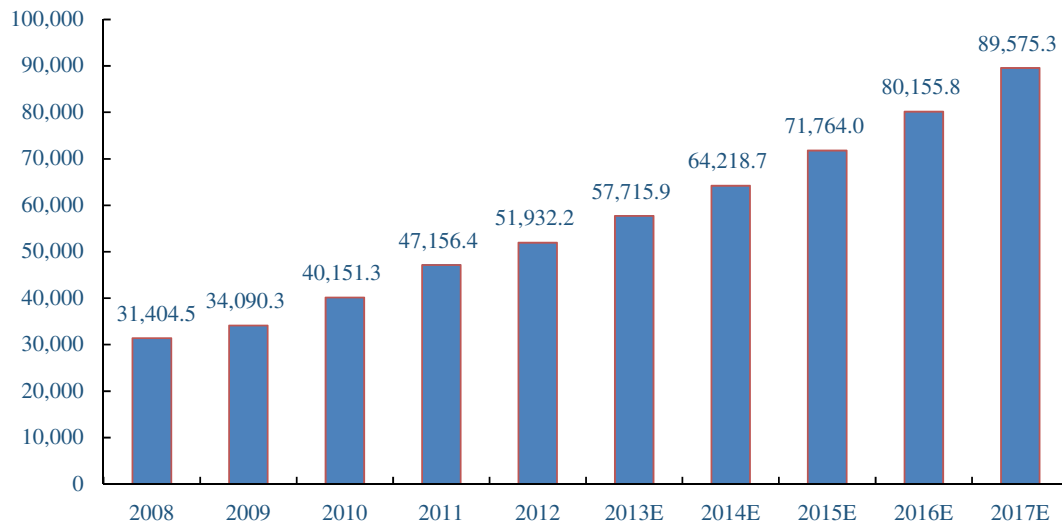
China's Nominal GDP Growth

China's economy has been growing rapidly since the late 1970s, when the Chinese government initiated economic reforms. According to the National Bureau of Statistics of China, China's nominal GDP grew from RMB31,404.5 billion for 2008 to RMB51,932.2 billion for 2012, representing a CAGR of approximately 13.4% during the period. According to estimates by International Monetary Fund ("IMF"), China's nominal GDP will further grow to RMB89,575.3 billion in 2017, representing a CAGR of approximately 11.5% during the period from 2012 to 2017. China's nominal GDP per capita also increased from RMB23,707.7 in 2008 to RMB38,353.5 in 2012, representing a CAGR of approximately 12.8%. According to IMF, China's per capita nominal GDP will further grow to RMB64,535.9 in 2017, representing a CAGR of approximately 11.0% during the period from 2012 to 2017.

The charts below illustrate the historical and projected growth of China's nominal GDP and nominal GDP per capita from 2008 to 2017.

Nominal GDP in the PRC, 2008-2017E

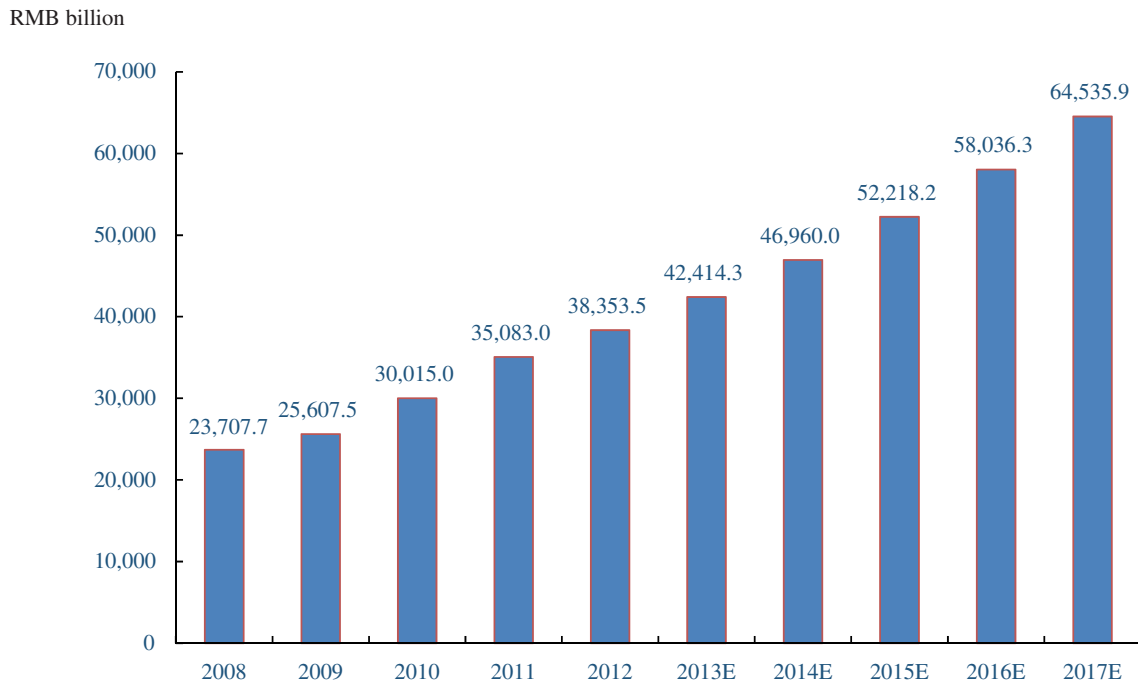
RMB billion



Sources: Historical data: National Bureau of Statistics of China; Forecast data: International Monetary Fund

INDUSTRY OVERVIEW

Per Capita Nominal GDP in the PRC, 2008-2017E



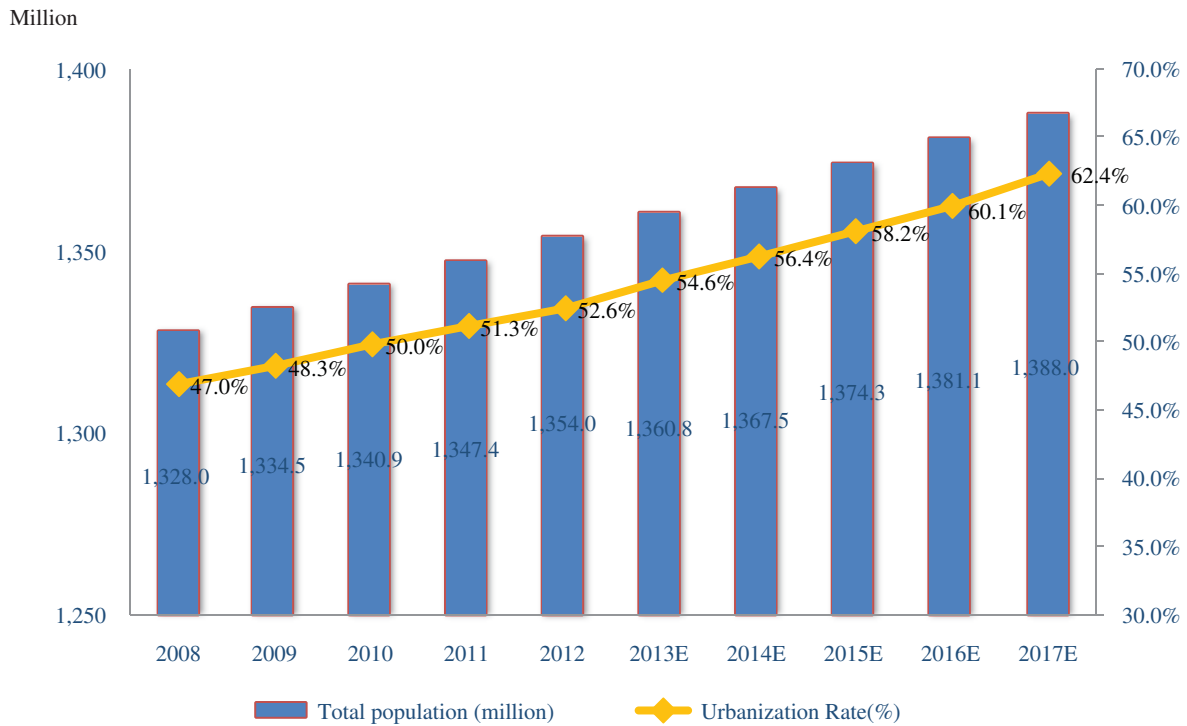
Sources: Historical data: National Bureau of Statistics of China; Forecast data: International Monetary Fund

Accelerating Urbanization Trend

Urbanization has accelerated steadily in China as a result of the rapid economic growth. Populations in cities have increased with the influx of people from rural and less developed areas in the PRC. From 2008 to 2012, China's urban population increased from approximately 624.2 million to approximately 712.2 million, and during the same period China's urbanization rate advanced from 47.0% to 52.6%. It is projected that by 2017 the total urban population in China will reach 866.1 million, with an urbanization rate of approximately 62.4%. According to Frost & Sullivan, China's urban population grew at a CAGR of approximately 3.4% for the period from 2008 to 2012, and it is expected to maintain a CAGR of approximately 4.0% from 2012 to 2017. The following chart sets forth the historical and projected urban and rural population and urbanization rate in China from 2008 to 2017.

INDUSTRY OVERVIEW

China's Urban and Rural Population and Urbanization Rate, 2008-2017E



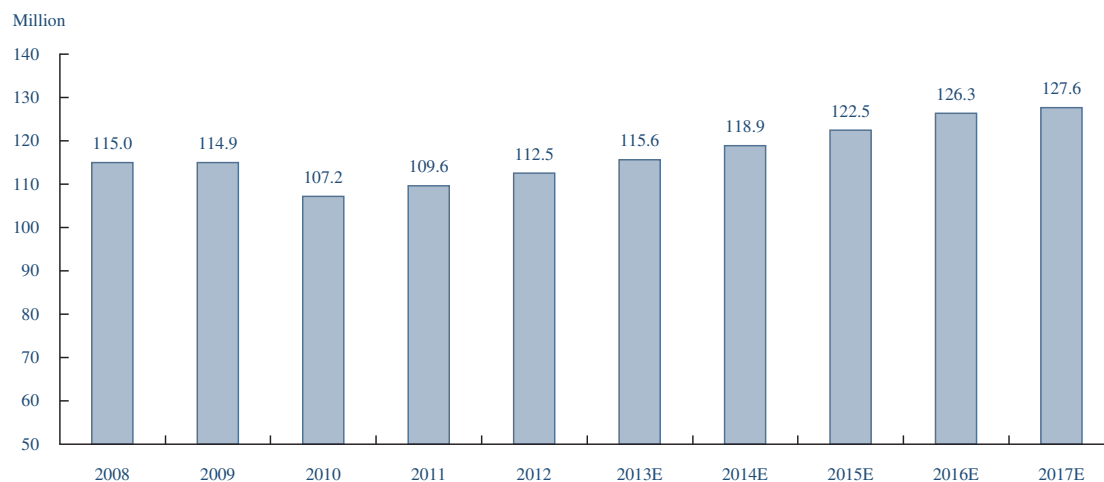
Sources: Historical data: National Bureau of Statistics of China; Forecast population of the PRC: International Monetary Fund; Forecast urban population and urbanization rate: Frost & Sullivan

Children's Population in China

According to the National Bureau of Statistics of China, China had a population of approximately 1,354.0 million in 2012, and the urban population of children aged from newborn to 14 years old represented approximately 8.3% of the total population of China in 2012. According to Frost & Sullivan, the urban population of children aged from newborn to 14 years old is projected to grow at a CAGR of 2.6% during the period from 2012 to 2017. China's population growth rate has been kept low and steady as a result of the "one child" policy population-control implemented in the 1980s. However, because married couples who are both the only child are permitted to have two children, there is expected to be an increase of new-borns in China. In addition, according to the Decision of the Central Committee of the Communist Party of China on Several Major Issues Concerning Comprehensively Deepening Reforms in the Third Plenary Session of the 18th Central Committee of the Chinese Communist Party on November 12, 2013, a new policy will permit married couples to have a second child if either of the parent is an only child. Our directors are of the view that this new policy may lead to further increase of new-borns in China and support the expansion and the development of the PRC children's apparel industry.

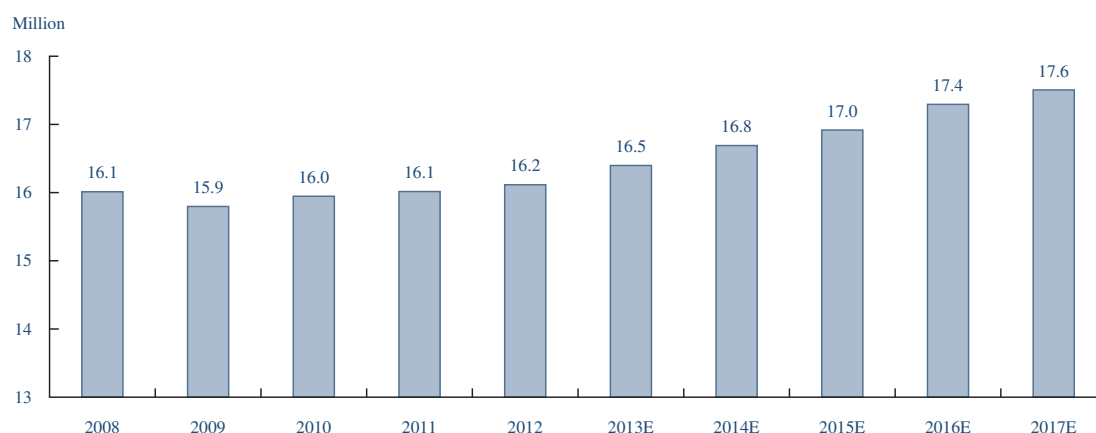
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China Children Population, Aged 0-14, Urban, 2008-2017E



Source: Historical data: National Bureau of Statistics of China (NBSC), 2012 Statistic Bulletin; Forecast data: Frost & Sullivan

China New-born Baby Population, 2008-2017E



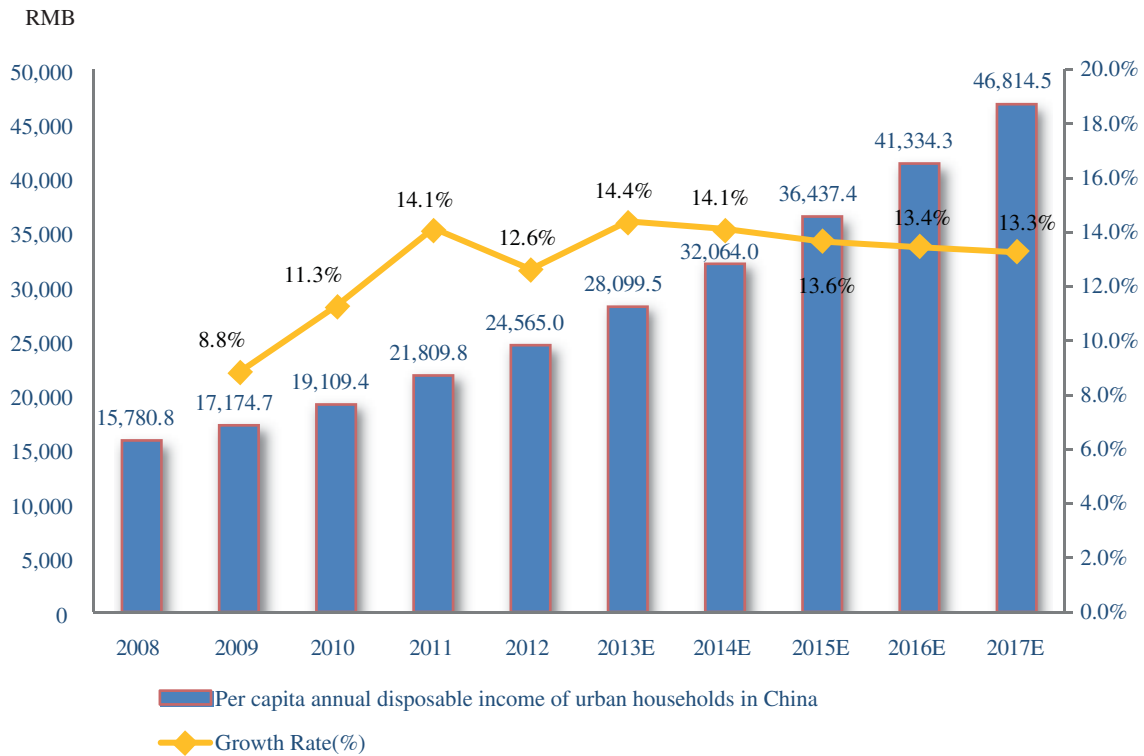
Source: Historical data: National Bureau of Statistics of China (NBSC), 2012 Statistic Bulletin; Forecast data: International Monetary Fund, April 2013

Urban Household Disposable Income

Rising GDP per capita has driven strong growth in per capita disposable income for PRC residents. The per capita annual disposable income of urban households in China increased from approximately RMB15,780.8 in 2008 to approximately RMB24,565.0 in 2012, representing a CAGR of approximately 11.7%. According to the Frost & Sullivan Report, the per capita annual disposable income of urban households is expected to continue to grow at a CAGR of approximately 13.8% from 2012 to 2017. The following chart sets forth the historical and projected per capita annual disposable income of urban households in the PRC from 2008 to 2017.

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Per Capita Annual Disposable Income of Urban Households in the PRC, 2008-2017E



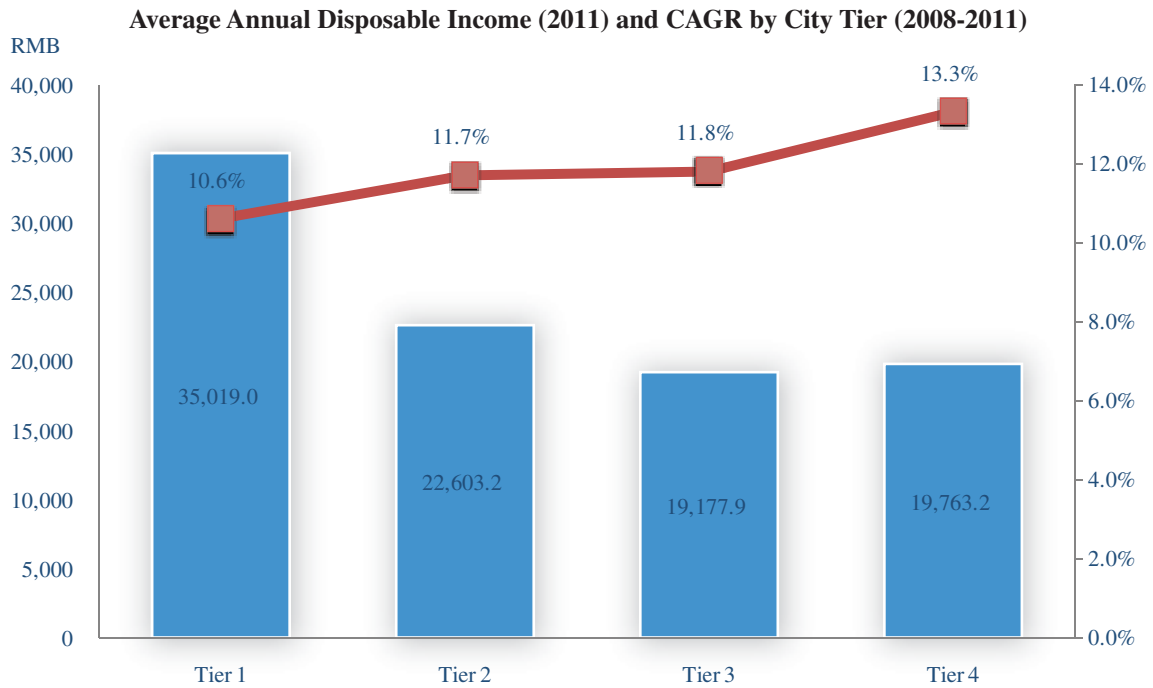
Sources: Historical data: National Bureau of Statistics of China; Forecast data: Frost & Sullivan

Third- and Fourth-tier Household Disposable Income

With the rapid growth of the PRC economy, third- and fourth-tier cities have achieved substantial economic growth in recent years, partially due to the PRC government's favorable policies for the development of small cities and rural areas. As a result, income levels of third- and fourth-tier urban households have increased and living standards have improved. In 2011, third- and fourth-tier cities showed significant growth potential in purchasing power, closing the gap with the first- and second-tier cities. According to the Frost & Sullivan Report, in 2011, average annual disposable income of third- and fourth-tier urban households reached RMB19,177.9 and RMB19,763.2, respectively, compared to RMB35,019.0 and RMB22,603.2 for first- and second-tier cities, respectively. Furthermore, the Frost & Sullivan Report indicates that children's apparel in the third- and fourth-tier cities are expected to continue to expand as a result of the ongoing urbanization and increases in disposable income and purchasing power of consumers in third- and fourth-tier cities.

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The chart below illustrates the average annual disposable income in 2011 and CAGR for the 2008 to 2011 period by tiers of cities.



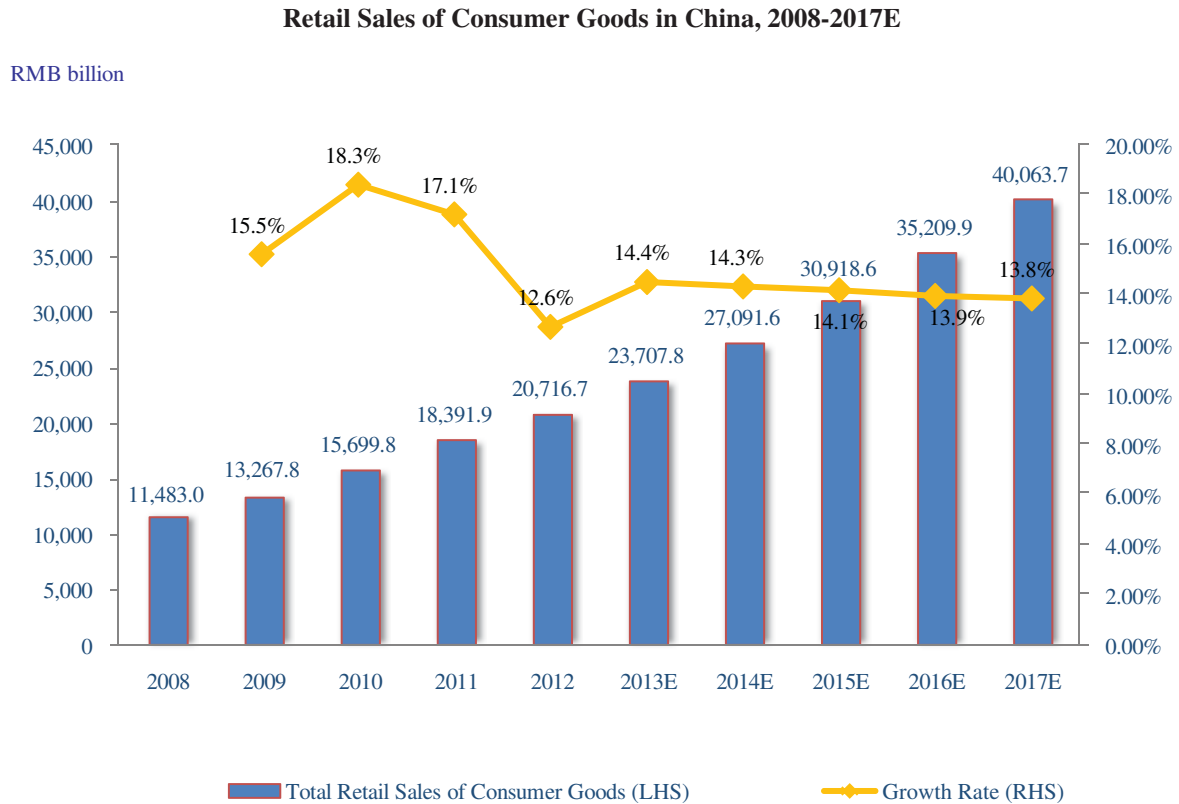
Source: Frost & Sullivan customer primary research conducted in June 2013

Growth of China's Retail Industry

The PRC market for consumer goods expanded rapidly in the past few years amid China's strong economy, continuing urbanization, increasing affluence of urban residents and growing disposable income of urban households. These factors have contributed to the development of the retail industry in the PRC and this trend, along with the large population base of China, is also anticipated to create a consumer market with attraction both in terms of size and purchasing power. Total retail sales of consumer goods in the PRC increased from RMB11,483.0 billion in 2008 to RMB20,716.7 billion in 2012, representing a CAGR of approximately 15.9%. By 2017, China's total retail sales of consumer goods is expected to reach RMB40,063.7 billion, at a CAGR of approximately 14.1% between 2012 and 2017.

INDUSTRY OVERVIEW

The chart below illustrates the historical and expected retail sales of consumer goods in China from 2008 to 2017.



Sources: Historical data: National Bureau of Statistics of China; Forecast data: Frost & Sullivan

PRC CHILDREN'S APPAREL MARKET

The PRC children's apparel market expanded rapidly during 2008 and 2012, from total retail sales of RMB40.3 billion for 2008 to RMB83.3 billion for 2012, representing a CAGR of approximately 19.9%. The high growth rate is mainly due to the increased purchasing power of new parents, consumers' enhanced brand awareness and an increase in demand for mid-to-high end and top-end children's apparel. Frost & Sullivan further projects that retail sales for children's apparel in the PRC is expected to be more than doubled between 2012 and 2017 and is estimated to reach approximately RMB211.6 billion by 2017, growing at a CAGR of approximately 20.5% during the period.

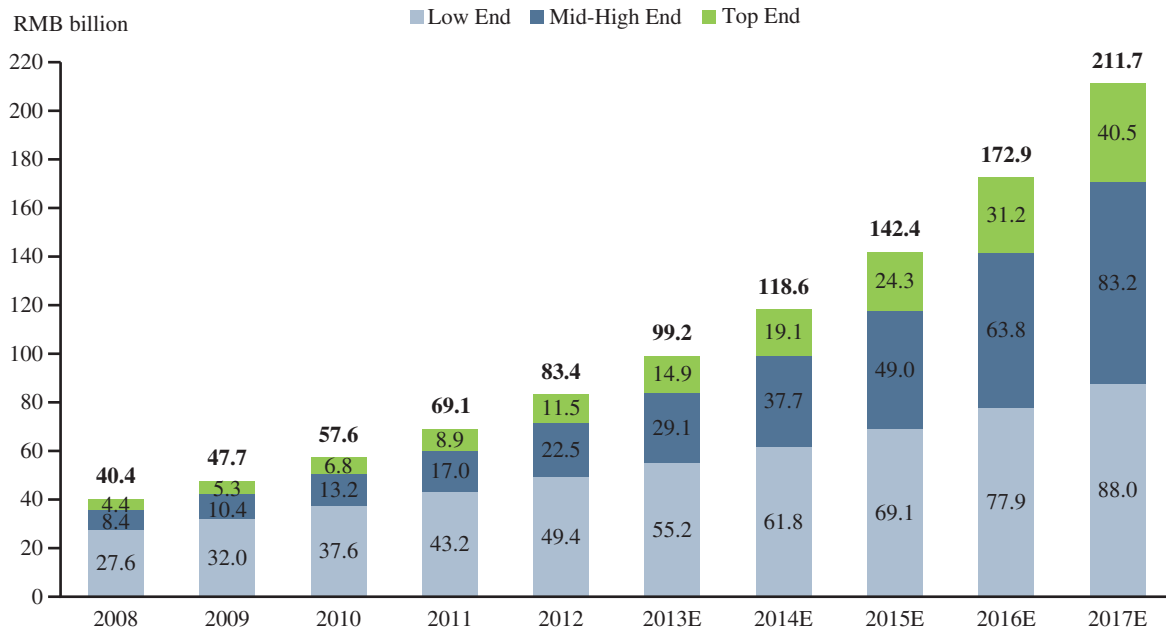
The PRC children's apparel market offers a wide array of products in an expansive price range. Based on consultations conducted by Frost & Sullivan with major industry veterans and players, the PRC children's apparel market is commonly divided into three price segments, based on the average retail price of single piece winter clothes, namely: (i) top-end, priced above RMB600, (ii) mid-to-high end, priced between RMB200 to RMB600 and (iii) low-end, priced below RMB200. According to Frost & Sullivan, we have been categorized as a mid-to-high end children's apparel brand.

According to Frost & Sullivan, in 2012 the top-end, mid-to-high end and low-end segments represent 13.8%, 27.0% and 59.2% of the PRC children's apparel market in terms of retail sales,

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respectively. Furthermore, though the low-end segment currently occupies the largest market share, the mid-to-high end and top-end segments have grown at a faster pace than the low-end segment. It is expected that the mid-to-high end and top-end segments will make up a larger proportion of the children's apparel market in China from 2015 to 2017. According to Frost & Sullivan, the retail sales of the mid-to-high end segment had expanded at a CAGR of 28.0% from 2008 to 2012 and is further projected to grow at a CAGR of 30.0% from 2012 to 2017.

PRC Children's Apparel Market Segmentation in Terms of Retail Revenue, 2008-2017E



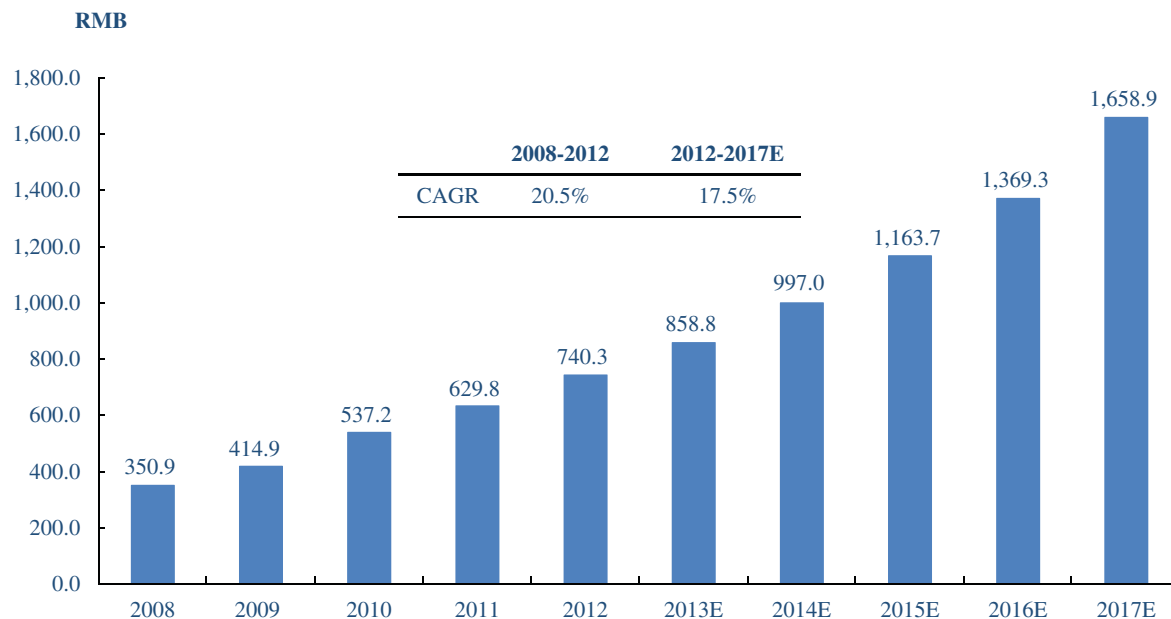
Source: Frost & Sullivan Primary Research

Growth in Consumer Spending on Children's Apparel

The per capita annual expenditure on children's apparel in the PRC has been growing steadily in recent years. It grew from RMB350.9 to RMB740.3 from 2008 to 2012, representing a CAGR of 20.5% during this 5-year period. The increase in per capita annual expenditure on children's apparel is likely a result of the growth in the per capita disposable income of urban households. As the per capita annual disposable income of urban households increase, we believe this trend in increasing spending on children's apparel will also continue in the near future. According to the Frost & Sullivan Report, per capita annual expenditure on children's apparel is projected to increase from RMB740.3 in 2012 to RMB1,658.9 in 2017, representing a CAGR of 17.5% over this 5-year period.

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Annual Expenditure on Children's Apparel per Capita, 2008-2017E



Source: Frost & Sullivan Primary Research

Key Development Trends for the PRC Children's Apparel Market

Emergence of Online Sales Platforms

Online sales of children's apparel became increasingly popular in the PRC. Many consumers are attracted to the convenience and wide selection of products offered by the online sales platforms. The growing prominence of online sales is also reflected in the number of people who rely on internet sources as the primary channel of information for children's apparel. According to the Frost & Sullivan Survey, 4.3% of the respondents view internet reviews as the primary source of information for children's apparel and 5.6% deem online reviews as the most trustworthy source of such information. Frost & Sullivan projects that the proportion of children apparel sold through online channels is expected to grow significantly in the near future.

Increasing Awareness of Product Quality

In recent years, there has been an increasing awareness of children's product safety amongst the general public in China resulting from certain children's product quality scandals. This change in public sentiment led Chinese consumers to heighten their scrutiny of product quality, and with their increase in purchasing power they increasingly demanded for children's apparel that are produced with healthy and eco-friendly fabrics. According to the Frost & Sullivan Survey, Chinese consumers view product safety and fabric quality as the two most important criteria for selecting children's apparel.

Increasingly Diversified Product Offerings

In response to increasing competition in the children's apparel market, PRC children's apparel manufacturers are enriching their product portfolios to cater to specific needs of different consumer groups. This development in product segmentation based on age, geographic region and

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style has also created new market opportunities, to which PRC children's apparel manufacturers have responded by broadening their product offerings through refining their product design and development and production techniques.

Key Growth Drivers of Mid-to-high end Children's Apparel Market Segment

There are three key growth drivers in the PRC mid-to-high end children's apparel market: increasing purchasing power of China's urban middle class consumers and growing number of new parents, in particular parents born in the 1980s who demand for high quality children's apparel and have heightened brand awareness. Rising disposable income and rapid urbanization have contributed to a steadily growing middle class, which in turn results in stronger consumer spending. At the same time, urbanization has also affected the consumption habits of Chinese consumers as urban residents are more willing to spend on high quality children's apparel. Furthermore, parents who were born in the 1980s are becoming the largest consumer groups of children's apparel, their strong purchasing power and increasing awareness of product quality drive the growth in mid-to-high end children's apparel market. Due to the various incidents relating to product safety issues in China, the quality of products is receiving increasing public attention in recent years in China. Compared with prior generations, these new parents prefer and are more willing to purchase safe and high-quality products, though such products may be more expensive. In addition, heightened brand awareness amongst new parents is driving the increase in demand for better designed children's apparel, which in turn leads to the growth of mid-to-high end children's apparel companies that focus on building brand image.

Constraints on the Development of PRC Children's Apparel Market

Rising Production Costs

Due to increases in labor costs and raw material prices in China, production costs of children's apparel have increased significantly over the last several years. These developments threaten to lower profit margins and to increase financial pressure for the PRC children's apparel companies. As a result, some of the PRC children's apparel companies may not have the necessary resources to invest in new technologies or advance their production techniques, which in turn impedes the growth of the PRC children's apparel market.

Product Homogeneity

The PRC children's apparel industry is in its high-growth stage and is highly fragmented with many new entrants. Most of the domestic children's apparel brands have not developed the capability to offer differentiated products with a relatively clear market positioning. Without a clear brand image, consumers may find it difficult to choose between brands on parameters other than price. This in turn results in consumers' lack of brand loyalty and adversely affects the development of the PRC children's apparel market.

Lack of Design Capability

The PRC consumers are demanding for children's apparel with better designs. Integrating rapidly changing fashion styles into a distinct yet consistent brand image requires a team of creative and qualified designers. However, most of the PRC children's apparel brands lack the talent and the capability to reflect their distinct brand image in their designs, which leads to homogeneity in brand competition and constrains the development of the PRC children's apparel market.

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PRC Children's Apparel Distribution Channels

There are four major retail channels in the PRC children's apparel market: street shops, department stores, shopping malls and online shops. According to the Frost & Sullivan Survey, the respondents to the survey allocated approximately 60% of their expenditure on children's apparel through street shops, department stores, shopping malls and online sales platforms in 2012.

Street shops are a major distribution channel for PRC children's apparel. It drives the rapid growth of PRC children's apparel through direct access to a large population and strong effect in promoting brand image. In lower tier cities where commercial real estate is still underdeveloped and large-scale department stores and shopping malls have yet to enter, most children's apparel brands use street shops to increase awareness for their brands, and hence street shops have become the prevalent shopping format for the local consumers. As street shops offer a high degree of flexibility in location selection and layout design, children's apparel brand owners believe that street shops can assist in building their brand image. According to the Frost & Sullivan Survey, the respondents allocated approximately 24.1% of their expenditure on children's apparel through street shops in 2012.

Department stores have long been one of the major distribution channels for children's apparel in the PRC. Although street shops are the prevalent shopping format for consumers in lower-tier cities with wide market access, department stores remain a distribution channel that has material influence on Chinese consumers' perception of a brand. In addition, shopping mall outlets are also a popular distribution channel for children's apparel as a result of the rapidly developing commercial real estate in China. Shopping malls provide more comfortable shopping environment and diversified merchandise and facilities to consumers. According to the Frost & Sullivan Survey, the respondents allocated approximately 26.5% of their expenditure on children's apparel through department stores or shopping malls in 2012.

According to the Frost & Sullivan Report, online sales platforms are also one of the key retail channels for PRC children's apparel. According to the Frost & Sullivan's Survey, the respondents allocated approximately 16.5% of their expenditure on children's apparel through online sales platforms. Furthermore, Frost & Sullivan projects that the proportion of sales through online platforms will increase at a rapid pace in the near future.

Key Barriers to Entry

Key barriers to entry in the PRC children's apparel market include: (i) distribution capability; (ii) proper market positioning; and (iii) initial investment. The ability to distribute children's apparel to wide geographic regions is needed to access customers and potential consumer groups. For new entrants, it is difficult to succeed in these aspects in a short period of time. In addition, rising brand awareness and purchasing power result in stronger consumer preference for well-branded children's apparel. New entrants need to launch well-designed children's apparel to meet the preferences of different consumer groups. Furthermore, building a brand image requires spending a substantial amount of advertising and promotion expenses during the initial stages of brand building. New entrants may not have or be able to raise the capital required to fund such activities.

COMPETITIVE LANDSCAPE OF MID-TO-HIGH END PRC CHILDREN'S APPAREL MARKET

According to Frost & Sullivan, China's mid-to-high end children's apparel industry is in its high-growth stage and the market is fragmented. In 2012, only the leading brand of the mid-to-

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high end children’s apparel market accounted for more than 10% market share in terms of retail revenue with the remaining brands accounted for less than 5% market share. The following table sets forth the retail revenue and market share of each of the leading mid-to-high end children’s apparel brands in 2012.

Leading Brands in China’s Mid-to-High End Children’s Apparel Industry by Retail Revenue

Ranking	Brand	Retail Revenue in 2012 (RMB million)	Market Share (%)
1	Balabala	3,533.4	15.7
2	redkids	959.6	4.3
3	Annil Kidswear	845.6	3.8
4	Dadida	781.7	3.5

Source: Frost & Sullivan Primary Research

Note:

According to the Frost & Sullivan Report, retail revenue of our “redkids” brand is based on the below assumptions:

- i) the wholesale discount between wholesale price and suggested retail price given to our distributors is 65%*
- ii) the average retail discount between final selling price and the suggested retail price given by our distributors to end customers is 35%*

Key Advantage of our “redkids” Brand over Competitors

According to the Frost & Sullivan Report, there are mainly two key advantages of our “redkids” brand over our competitors, including (i) strong design capability — our design and research and development team comprises designers well adapted to developing apparels that encompass international trends while meeting the preferences of domestic consumers and (ii) stable supply of quality raw materials — we have an established network of raw material suppliers who have consistently and timely provided us with quality raw materials at competitive prices.

CONSUMER BEHAVIOR

Primary Source of Information for Children’s’ Apparel Selection

According to the Frost & Sullivan Survey, recommendations from friends or a brand’s sales force and TV commercials are listed as the three main primary sources of information for PRC consumers when it comes to selecting children’s apparel. Approximately 32.0% of respondents to the Frost & Sullivan Survey identify that friends’ recommendation is the primary source of information for children’s apparel, while another 29.8% and 19.9% of the respondents view TV commercials and recommendations from a brand’s sales force, respectively, as the primary information channels they consult when they purchase children’s apparel. Similarly, respondents to the Frost & Sullivan Survey also view these three sources as the most trustworthy channels for information on children’s apparel. Approximately 51.0%, 17.0% and 11.6% of the respondents selected friends’ recommendation, recommendation from a brand’s sales force and TV commercials, respectively, as their most trusted information sources for children’s apparel. Other information channels identified by respondents include internet reviews, printed media advertisements and other sources of media outlets.

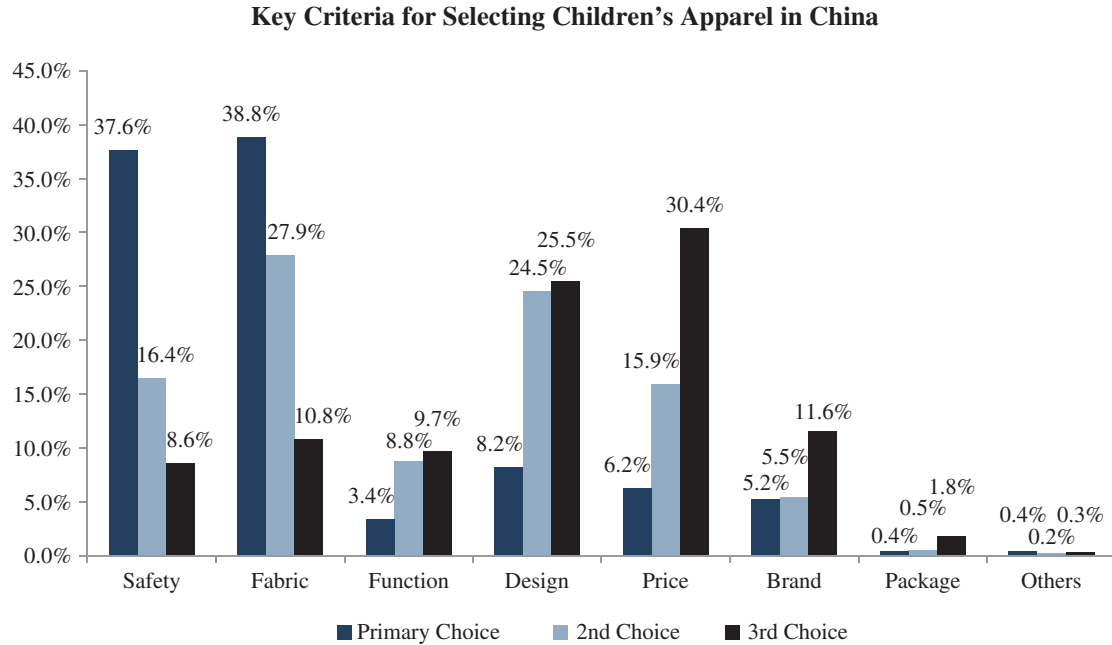
Criteria for Selecting Children’s Apparel

According to the Frost & Sullivan Survey, 38.8% of the respondents list fabric quality as the most important purchasing criteria, and 37.6% and 8.2% of the respondents identify product

INDUSTRY OVERVIEW

safety and design, respectively, as the primary criteria for selecting children’s apparel. In addition, according to Frost & Sullivan, children’s apparel consumers in China also choose children’s apparel based on price, brand and functionality.

The following chart illustrates Chinese children’s apparel consumers’ key selection criteria:



Number of respondents in survey — 1,834

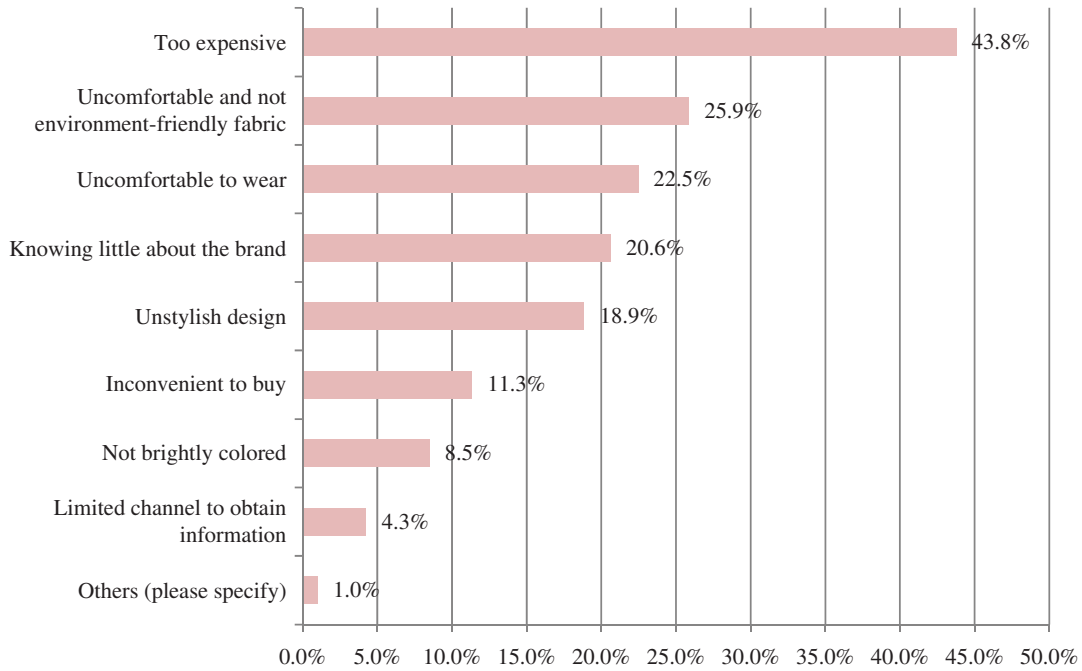
Source: Frost & Sullivan customer primary research conducted in June 2013

On the other hand, respondents to the Frost & Sullivan Survey identified application of unqualified fabric to children’s apparel and uncomfortableness of children’s apparel as two of the top three reasons for being dissatisfied with a PRC children’s apparel brand. In addition, overpriced apparels, weak brand recognition, outdated design and dull colored children’s apparel are also listed as top reasons for being dissatisfied with a children’s apparel brand.

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The following chart illustrates the top reasons leading Chinese children's apparel consumers to be dissatisfied with a children's apparel brand:

Reasons for being Dissatisfied with a Children's Apparel Brand in China



Number of respondents — 1,834

Source: Frost & Sullivan end customer primary research conducted in June 2013

REGULATIONS

REGULATION

Our Group's operations are mainly carried out by our Company's subsidiary in the PRC. The establishment and operations of such subsidiary shall comply with the laws and regulations in respect of:

FOREIGN INVESTMENT

The establishment, operation and management of corporate entities in the PRC are governed by the Company Law of the PRC (中華人民共和國公司法) (the "Company law"), which was promulgated by the Standing Committee of the NPC on December 29, 1993 and became effective on July 1, 1994. It was subsequently amended on December 25, 1999, August 28, 2004 and October 27, 2005 respectively. The companies are classified into categories — limited liability companies and limited companies by shares. The Company Law shall also apply to foreign-invested limited liability companies. According to the Company Law, where laws on foreign investment have other stipulations, such stipulations shall apply.

The establishment procedures, verification and approval procedures, registered capital requirement, foreign exchange restriction, accounting practices, taxation and labor matters of a wholly foreign-owned enterprise are also regulated by the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法), which was promulgated on April 12, 1986 and amended on October 31, 2000, and the Implementation Regulation of the Wholly Foreign-owned Enterprise Law (中華人民共和國外資企業法實施細則), which was promulgated on December 12, 1990 and amended on April 12, 2001.

The Catalogue of Industries for Guiding Foreign Investment Industries (Amended in 2011) (外商投資產業指導目錄(2011年修訂)) (the "Catalogue") which was promulgated by the MOFCOM and the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) on December 24, 2011, with effect from January 30, 2012, lists the industries in the categories of foreign investment encouraged industries, foreign investment restricted industries and foreign investment prohibited industries. Industries not listed in the Catalogue are generally open to foreign investment unless specifically prohibited or restricted by other PRC laws and regulations.

TAXATION

Income Tax

According to PRC Enterprise Income Taxation Law (中華人民共和國企業所得稅法) (the "EIT Law"), which was promulgated by the National People's Congress on March 16, 2007 and became effective on January 1, 2008, the income tax rate for both domestic and foreign-invested enterprises is 25% commencing January 1, 2008.

On December 26, 2007, the State Council promulgated the Notice of the State Council on Transitional Preferential Policy For Implementing Enterprise Income Tax (國務院關於實施企業所得稅過渡優惠政策的通知), whereby enterprises enjoying preferential tax rates under the relevant tax laws and administrative regulations and the enterprises income preferential tax policy as stipulated by competent documents with administrative regulatory force are subject to the following measures during transition:

- (1) As from January 1, 2008, enterprises that have enjoyed preferential tax rates shall be taxed at rates to be increased from the current rate to the full rate under the EIT Law

REGULATIONS

within a period of 5 year. Among them, for enterprises enjoying enterprise income tax of 15%, the tax rate of 18%, 20%, 22%, 24% and 25% will take effect in 2008, 2009, 2010, 2011 and 2012, respectively; for enterprises enjoying enterprises income tax of 24%, the tax rate of 25% takes effect from 2008 onwards.

- (2) As from January 1, 2008, enterprises enjoying fixed-term preferential tax treatment under relevant enterprises income tax, such as the “2 years tax exemption and 3 years 50% tax reduction” and the “5 years tax exemption and 5 years 50% tax reduction” will continue to enjoy the preferential tax treatment until expiry of the relevant fixed term according to relevant tax law, administrative regulations and preferential measures stipulated in the relevant document after the promulgation of the EIT Law. For enterprises not yet enjoyed preferential tax treatment, as profits have not yet been realized, the relevant term for enjoying preferential tax treatment shall be calculated commencing from 2008.

The enterprises entitled to benefit from the transitional preferential policies referred to above shall be enterprises established prior to March 16, 2007 that are registered with an administrative authority such as the administration of industry and commerce.

In order to clarify certain provisions in the EIT Law, the Implementation Regulation of the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例) was promulgated by the State Council on December 6, 2007 and became effective on January 1, 2008.

Furthermore, pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Treaty Agreements (國家稅務總局關於執行稅收協定股息條款有關問題的通知) which was promulgated and with effect from February 20, 2009, all of the following requirements should be satisfied where a fiscal resident of the other party to the tax agreement needs to be entitled to such tax agreement treatment as being taxed at a tax rate specified in the tax agreement for the dividends paid to it by a Chinese resident company: (a) such a fiscal resident who obtains dividends should be a company as provided in the tax agreement; (b) owner’s equity interests and voting shares of the Chinese resident company directly owned by such a fiscal resident reaches a specified percentage; and (c) the equity interests of the Chinese resident company directly owned by such a fiscal resident, at any time during the twelve months prior to the obtainment of the dividends, reaches a percentage specified in the tax agreement.

In addition, pursuant to the Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (Trial) (非居民享受稅收協定待遇管理辦法 (試行)) (the “**Administrative Measures**”) which came into force on October 1, 2009, where a non-resident enterprise (as defined under the EIT Law and the Administrative Measures.) that receives dividends from a PRC resident enterprise wishes to enjoy the favorable tax benefits under the tax arrangements, it shall submit an application for approval to the competent tax authority. Without being approved, the non-resident enterprise may not enjoy the favorable tax treatments provided in the tax treaties.

Value-added Tax

Pursuant to the Provisional Regulations on Value-added Tax of the PRC (中華人民共和國增值稅暫行條例), which was promulgated by the State Council on December 13, 1993 and amended on November 10, 2008 and which became effective on January 1, 2009, and its implementation rules, all entities or individuals in the PRC engaged in the sale of goods,

REGULATIONS

processing services, repair and replacement services, and the importation of goods are required to pay value-added tax (“VAT”). VAT payable is calculated as “output VAT” minus “input VAT”, and the rate of VAT is 17% or in certain limited circumstances, 13%, depending on the products.

Business Tax

Pursuant to the Provisional Regulations of the PRC on Business Tax (中華人民共和國營業稅暫行條例) effective from January 1, 1994, as amended on November 10, 2008, and its implementation rules, all institutions and individuals providing taxable services, transferring intangible assets or selling real estate within the PRC must pay business tax. The items and rates of business tax shall be implemented in accordance with the List of Items and Rates of Business Tax (營業稅稅目稅率表) attached to the regulation.

PRODUCT QUALITY

The Product Quality Law of the PRC (中華人民共和國產品質量法) (the ‘Product Quality Law’) was promulgated on February 22, 1993 and effective from September 1, 1993 by the Standing Committee of the National People’s Congress, as amended on July 8, 2000 and August 27, 2009.

Pursuant to the Product Quality Law, a seller is obliged:

- to adopt a check-for-acceptance system for stock replenishment to examine the quality certificates and other labels of such stock;
- to take measures in keeping products for sale in good quality;
- not to sell defective or deteriorated products or products;
- to sell products with labels that comply with the relevant provisions;
- not to forge the origin of a product, or to forge or falsely use the name and address of another producer;
- not to forge or falsely use product quality marks such as authentication marks; and
- not to add impurities or imitations into the products, substitute a fake product for a genuine one, a defective product for a high-quality one, or pass off a substandard product as a qualified one in the sale of products.

Pursuant to the Product Quality Law, a producer shall:

- be responsible for the quality of products it produces;
- not produce products that have been ordered to cease production;
- not forge the origin of a product, or to forge or falsely use the name and address of another producer;
- not forge or falsely use product quality marks such as authentication marks;

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- not add impurities or imitations into the products, substitute a fake product for a genuine one, a defective product for a high-quality one, or pass off a substandard product as a qualified one in the production;
- ensure that the marks on the products or the packaging of the products are originals; and
- ensure that, for products that may be easily broken, or are inflammable, explosive, toxic, erosive or radioactive and products that cannot be handled upside down in the process of storage or transportation or for which there are other special requirements, the packaging meets the corresponding requirements, carries warning marks or warnings written in Chinese or draws attention to the method of handling.

Violations of the Product Quality Law may result in the imposition of fines. In addition, the seller or producer may be ordered to suspend its operations and its business license may be revoked. Criminal liability may be incurred in serious cases.

According to the Product Quality Law, consumers or other victims who suffer injury or loss of property due to product defects may demand compensation from the producer as well as the seller. Where the responsibility lies with the producer, the seller shall, after settling compensation, have the right to recover such compensation from the producer, and vice versa.

CONSUMER PROTECTION

The Consumer Protection Law of the PRC (中華人民共和國消費者權益保護法) (the ‘Consumer Protection Law’) was promulgated by the Standing Committee of the National People’s Congress on October 31, 1993 and became effective on January 1, 1994.

The Consumer Protection Law sets out standards of behavior which business operators must observe in their dealings with consumers, including the following:

- goods and services provided to consumers must comply with the Product Quality Law and other relevant laws and regulations, including requirements regarding personal safety and protection of property;
- providing consumers with true information and advertising concerning goods and services, as well as providing true and clear answers to questions raised by consumers concerning the quality and use of goods or services provided by them;
- issuing purchase or service vouchers to consumers in accordance with relevant national regulations or business practices;
- ensuring the quality, functionality, applications and duration of the normal use of the goods or services and ensuring that the actual quality of the goods or services are consistent with those displayed in advertising materials, product descriptions or samples;
- properly performing its responsibilities for guaranteed repair, replacement and return or other responsibilities in accordance with national regulations or any agreement with the consumer; and

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- not setting unreasonable or unfair terms for consumers or excluding themselves from civil liability for undermining the legal rights and interests of consumers by means of, among others, standard contracts, circulars, announcements or shop notices.

Violations of the Consumer Protection Law may result in the imposition of fines. In addition, the business operator may be ordered to suspend its operations and its business license may be revoked. Criminal liability may be incurred in serious cases.

According to the Consumer Protection Law, a consumer whose legal rights and interests are prejudiced during the purchase or use of goods may demand compensation from the seller. Where the responsibility lies with the manufacturer or another seller that provides the goods to the seller, the seller shall, after settling compensation, have the right to recover such compensation from that manufacturer or that other seller. Consumers or other injured parties who suffer injury or property loss due to product defects in certain commodities may demand compensation from the manufacturer as well as the seller. Where the responsibility lies with the manufacturer, the seller shall, after settling compensation, have the right to recover such compensation from the manufacturer, and vice versa.

TORT LAW

The Tort Law of the PRC (中華人民共和國侵權責任法) promulgated on December 26, 2009 and effective on July 1, 2010, further provides that where a defective product causes damage or physical injury to any person, the victim may claim compensation from either the manufacturer or the seller. If the defect of the product is caused by the manufacturer and the seller has made the compensation for the defect, the retailer shall be entitled to claim reimbursement from the manufacturer. If the product defect is caused by the fault of the seller and the manufacturer has made the compensation for the defect, the manufacturer shall be entitled to claim reimbursement from the seller.

ENVIRONMENTAL PROTECTION

Pursuant to the Environmental Protection Law of the PRC (中華人民共和國環境保護法) (the “Environmental Protection Law”), promulgated on and effective from December 26, 1989, by the Standing Committee of the National People’s Congress, the environmental protection department of the State Council is in charge of promulgating national standards for environmental protection. The Environmental Protection Law requires any facility that produces pollutants or other hazards to incorporate environmental protection measures in its operations and establish an environmental protection responsibility system. Any entity that discharges pollution must register with the relevant environmental protection authority. Remedial measures for breaches of the Environmental Protection Law include a warning, payment of damages or imposition of a fine. Criminal liability may be imposed for a material violation of environmental laws and regulations that causes loss of property, personal injuries or death.

Pursuant to the Law of the PRC on Appraising of Environment Impacts (《中華人民共和國環境影響評價法》) with effect from September 1, 2003, the PRC government has set up a system to appraise the environmental impact from construction projects, and classify and administer the environmental impact appraisals in accordance with the degree of the environmental impact. If the construction project may result in a material impact on the environment, an environmental impact report of appraising thoroughly the environmental impact which may happen is required; if the construction project may result in a slight impact on the environment, an

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environmental impact record of analyzing or appraising the specific environmental impact which may happen is required; and if the construction project may result in very little impact on the environment, an environmental impact appraisal is not required but filing an environmental impact form is needed, construction units shall prepare an environmental impacts report. The report shall be approved by the relevant PRC environmental protection authority before construction commences.

Pursuant to the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》) with effect from April 1, 1996 and amended on December 29, 2004, environment impacts appraisal shall be conducted for construction of projects discharging solid wastes, store, use and disposal of solid wastes and comply with regulations by the State regarding environmental protection of construction project. The prevention facilities for solid wastes shall be designed, constructed and put into operation together with the main part of the project. The construction project can only be put into operation after the environmental protection authority has examined and approved the solid wastes pollution prevention facilities.

Pursuant to the Law of the PRC on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》) with effect from June 1, 1988 and amended on August 29, 1995 and April 29, 2000, respectively, new construction projects, expansion projects or reconstruction projects which discharge atmospheric pollutants shall comply with regulations by the State regarding environmental protection of construction projects. The environmental impacts statement of the construction projects shall include an assessment of the project impact on the ecosystem and be submitted to the environmental protection authority for approval. The construction project can only be put into operation after the environmental protection authority has examined and approved the atmospheric pollution prevention facilities.

Pursuant to the Law of the PRC on Prevention and Control of Environmental Noise Pollution (《中華人民共和國環境噪聲污染防治法》) with effect from March 1, 1997, a construction project which is likely to produce environmental noise pollution shall prepare an environmental impact statement which includes measures to prevent and control such pollution, and submit it to the relevant environmental protection authority for approval. The construction project can only be put into operation after the environmental protection authority has examined and approved the noise pollution prevention facilities.

Pursuant to the Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》) with effect from November 1, 1984 and amended on May 15, 1996 and February 28, 2008, respectively, new construction projects, expansion projects or reconstruction projects and other above-water facilities that directly or indirectly discharge pollutants to water shall be carried out the appraisal regarding their effects on environment according to law. Water pollution prevention facilities shall be designed, built and put into operation together with the main part of the project. The construction project can only be put into operation after the environmental protection authority has examined and approved the water pollution prevention facilities.

LABOR AND INSURANCE

The relevant labor laws in the PRC include the PRC Labor Law(中華人民共和國勞動法) (the “Labor Law”) (effective from January 1, 1995 and amended in 2009), the PRC Labor Contract Law (中華人民共和國勞動合同法) (effective from January 1, 2008), the Social Insurance Law of the PRC

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(中華人民共和國社會保險法) (effective from July 1, 2011), the Regulation of Insurance for Work-Related Injury (工傷保險條例) (effective from January 1, 2011), the Provisional Measures on Insurance for Maternity of Employees (企業職工生育保險試行辦法) (effective from January 1, 1995), the Interim Regulation on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例) (effective from January 22, 1999), the Interim Provisions on Registration of Social Insurance (社會保險登記管理暫行辦法) (effective from March 19, 1999), the Regulations on the Administration of Housing Provident Funds (住房公積金管理條例) (effective from March 24, 2002), and other related law and regulations issued by relevant governmental authorities from time to time in the PRC.

The Labor Law was promulgated by the Standing Committee of the National People's Congress and came into force on January 1, 1995. According to the Labor Law, employees are entitled to have equal opportunities in employment, selection of occupations, receiving wages and remuneration, rest days and holidays, protection of occupational safety and health, the rights to social insurance and welfare, etc. An employee shall not work for more than eight hours a day and no more than 44 hours a week on average. The employers must establish and improve the system for occupational safety and health, provide education on occupational safety and health to employees, and comply with the State and/or local regulations of occupational safety and health as well as provide the necessary labor protective measures to employees.

On June 29, 2007, the Labor Contract Law, another important law concerning employees, was adopted by the Standing Committee of the National People's Congress and amended on December 28, 2012 and came into effect on January 1, 2008. According to the Labor Contract Law, labor contracts must be executed in order to establish a labor relationship between an employer and employees. When an employer is recruiting employees, it should inform the employees truthfully the content of work, working conditions, place of work, occupational hazards, safe production conditions, labor remuneration and other circumstances requested to be notified by the employees. An employer and an employee shall fully perform their respective obligations in accordance with the terms set forth in the labor contract. An employer must make payment for employee remuneration timely and in full amount in accordance with the contract terms, must strictly abide by the fixed standard of labor work, and must not force or threaten an employee in disguise to work overtime. After the labor contract is released or terminated, the employer should issue a proof of release or termination of the labor contract to the employee, and complete the filing procedure and transfer of social insurance relationship for the employee within 15 days.

Under the Social Insurance Law, the Regulation of Insurance for Work-Related Injury, the Provisional Measures on Insurance for Maternity of Employees, the Interim Regulation on the Collection and Payment of Social Insurance Premiums, and the Interim Provisions on Registration of Social Insurance, an employer is required to contribute the social insurance for its employees, including the basic pension insurance, basic medical insurance, unemployment insurance, maternity insurance and injury insurance.

Under the Regulations on the Administration of Housing Provident Funds, promulgated by the State Council on April 3, 1999 and as amended on March 24, 2002, employers are required to make contributions to a housing provident fund for their employees.

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FOREIGN EXCHANGE

The Foreign Exchange Administrative Regulations of the PRC (中華人民共和國外匯管理條例) (the “Foreign Exchange Administrative Regulations”), which was promulgated on January 29, 1996 and implemented since April 1, 1996 and was amended with effect from August 5, 2008, forms an important legal basis for the PRC authorities to supervise and regulate foreign exchange.

According to Foreign Exchange Administrative Regulations, Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loans unless prior approval of the State Administration of Foreign Exchange (the “SAFE”) is obtained.

Under the Administration Rules of Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯管理規定) which was promulgated by the People’s Bank of China on June 20, 1996, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for paying dividends by providing certain evidencing documents (board resolutions, tax certificates, etc.), or for trade and services-related foreign exchange.

HISTORY AND CORPORATE STRUCTURE

IMPORTANT MILESTONES

The following illustrates our major business development milestones and achievements:

<u>Year</u>	<u>Event</u>
2000	Red Kids Light Textile Development Co., Ltd.* (紅孩兒(福建)輕紡發展有限公司) was established in January 2000
2005	We were recognized as “China Famous Brand of Export To Be Developed Emphatically” (重點培育和發展—中國出口名牌) for 2005 and 2006 by MOFCOM in January 2005
2008	Red Kids Light Textile Development Co., Ltd. (紅孩兒(福建)輕紡發展有限公司) changed its name to Red Kids China in January 2008
2009	Our “redkids” brand was recognized as “Fujian Province Famous Brand” (福建省著名商標) by Administration for Industry and Commerce of Fujian province (福建省工商行政管理局) in December 2009
2010	We were recognized as “China Fashionable Product Release Base for Children’s Garments” (中國童裝時尚新品發佈基地) by China Fashion & Color Association (中國流行色協會) in August 2010
2013	Miko Shanghai was incorporated in June 2013 We were recognized as “Excellent Enterprise for Trustworthy Quality in China” (全國質量誠信優秀企業) by China Quality Inspection Association (中國質量檢驗協會) in May 2013 We were recognized as “Top Ten Brands for Children’s Apparel in China” (中國十大童裝品牌) by China National Garment Association (中國服裝協會)

OUR HISTORY

History of our PRC Subsidiaries

Introduction

Our history can be traced back to January 2000 when Red Kids Light Textile Development Co., Ltd.* (紅孩兒(福建)輕紡發展有限公司) (“Red Kids Light Textile”) was first established in Quanzhou, Fujian by Red Kids Group (Hong Kong) Limited (紅孩兒集團(香港)有限公司) (“Red Kids Group HK”), which was then 95% owned by Mr. Ding and 5% owned by Mr. Lau Hoi Ming (劉海明). Red Kids Light Textile has primarily been engaged in the business of manufacturing and sales of children’s apparel and remained as our major operating subsidiary since its establishment. Red Kids Light Textile changed its name to Red Kids China in January 2008. In order to better manage our self-operated retail outlets in the PRC, we established another subsidiary in the PRC, Miko Shanghai, in June 2013.

A brief summary of the development of each of our subsidiaries is set out below:

Red Kids China

Red Kids China was established as a WFOE on January 20, 2000 under the initial name of Red Kids Light Textile with an initial total investment amount of HK\$10 million and an initial registered capital of HK\$8 million, to engage in the business of manufacturing of textile materials including mixed spin, textile products, garments and baby diapers. At the time of its establishment, Red Kids China was wholly-owned by Red Kids Group HK, which was then 95% owned by Mr. Ding and 5% owned by Mr. Lau Hoi Ming. Mr. Lau Hoi Ming is the husband of Ms. Ting Lai Yan (丁麗仁), an elder sister of Mr. Ding. At the time, Mr. Ding considered that, by

HISTORY AND CORPORATE STRUCTURE

introducing Mr. Lau Hoi Ming, a Hong Kong resident, to act as a minority shareholder of Red Kids Group HK would be more convenient and efficient to manage the affairs of Red Kids Group HK in Hong Kong. Notwithstanding being named as a 5% minority shareholder of Red Kids Group HK, Mr. Lau Hoi Ming did not make any contribution to the capital of Red Kids Group HK or Red Kids Light Textile and the initial capital of Red Kids Group HK and Red Kids Light Textile was provided by Mr. Ding from his personal resources.

Pursuant to a share transfer agreement dated December 1, 2004 entered into between Red Kids Group HK and Yuen Hung, a company incorporated in Hong Kong and then beneficially owned by Mr. Ding Mingxiong (丁銘雄) at the relevant time, a business contact and a personal friend of Mr. Ding, Red Kids Group HK disposed 100% equity interest in Red Kids Light Textile to Yuen Hung for a total consideration of HK\$8 million, which was equal to the then paid up registered capital of Red Kids Light Textile. Due to inexperience of Mr. Ding and Mr. Lau Hoi Ming, the directors of Red Kids Group HK at the relevant time, in regulatory compliance requirements of a Hong Kong company, Red Kids Group HK had not prepared or filed annual returns with the Registrar of Companies of Hong Kong (the “Registrar of Companies”) since its incorporation, resulting in the Registrar of Companies directing the dissolution of Red Kids Group HK on June 3, 2005. In around late 2004, upon realizing the regulatory irregularities of Red Kids Group HK, in order to protect the underlying investments in Red Kids Light Textile, Mr. Ding directed Red Kids Group HK to transfer its equity interest in Red Kids Light Textile to Yuen Hung, which was owned by Mr. Ding Mingxiong. Due to Mr. Ding’s personal friendship with Mr. Ding Mingxiong, it was the consensus agreed between Mr. Ding Mingxiong and Mr. Ding that: (i) Mr. Ding Mingxiong, through Yuen Hung, will only act as the registered shareholder of Red Kids Light Textile, and any shareholder’s rights of Red Kids Light Textile by Yuen Hung shall only be exercised after consultation with Mr. Ding; (ii) Mr. Ding Mingxiong and Yuen Hung shall not be involved in the daily operations of Red Kids Light Textile; and (iii) after Mr. Ding has arranged to set up another Hong Kong company to act as the shareholder of Red Kids Light Textile, Mr. Ding Mingxiong shall procure Yuen Hung to transfer the equity interest in Red Kids Light Textile at the direction of Mr. Ding.

Accordingly, after Red Kids Group (Hong Kong) Limited (紅孩兒集團(香港)有限公司) (“Red Kids HK”), a company which adopted the same corporate name as previously used by Red Kids Group HK (*Note*), was incorporated on July 29, 2005, pursuant to another share transfer agreement dated August 1, 2005 entered into between Yuen Hung and Red Kids HK, Yuen Hung transferred the 100% equity interest in Red Kids Light Textile to Red Kids HK for a total consideration of HK\$8 million, which was equal to the then paid up registered capital of Red Kids Light Textile. On August 3, 2005, Mr. Ding and Mr. Ding Peiyuan subscribed for 70% and 30% of the issued share capital of Red Kids HK, and they became shareholders of Red Kids HK, respectively. Red Kids Light Textile did not apply for approval of the above-mentioned transfers with Bureau of Foreign Trade and Economic Cooperation of Quanzhou Economic Technology Development Zone* (泉州經濟技術開發區對外貿易經濟合作局) (“Quanzhou FTEC”) at the relevant time due to unfamiliarity with relevant regulatory requirements in relation to such transfers. Upon being aware of our failure to apply for relevant approval of the abovementioned transfers within the statutory time limit required by applicable laws and regulations, we submitted the relevant application documents to Quanzhou FTEC in November 2010. Pursuant to an approval document numbered Min Wai Jing Mao Zi [2010] No. 459 (閩外經貿資[2010]459號) dated December 16, 2010, as well as another approval document numbered Min Wai Jing Mao Zi [2010] No. 464 (閩外經貿資[2010]464) dated

Note: After the dissolution of Red Kids Group HK, its corporate name became available to use by any other companies incorporated in Hong Kong.

HISTORY AND CORPORATE STRUCTURE

December 17, 2010, Fujian Provincial Department of Foreign Trade & Economic Cooperation (福建省對外貿易經濟合作廳) (“Fujian FTEC”) ratified the said two transfers through belated standard approval procedures for these transfers, which were completed subsequently. In July 2013, Quanzhou FTEC issued a written confirmation that these transfers have been approved by Fujian FTEC and such transfers were legal and valid. In addition, our PRC legal advisers, Jingtian & Gongcheng, confirmed that Fujian FTEC was the competent authority having appropriate jurisdiction to ratify these two transfers, as (i) according to the Circular of the Ministry of Commerce on Delegating Approval Authority over Foreign Investment to Local Counterparts (商務部關於下放外商投資審批權限有關問題的通知), the competent approval authorities for the establishment and alteration of foreign-invested enterprises which engage in business in the “encouraged” and “permitted” categories under the Catalogue for the Guidance of Foreign Investment Industries (外商投資產業指導目錄) with total investment less than US\$300 million shall be the competent commerce authorities at provincial level, and (ii) Red Kids China, as a foreign-invested enterprise, was engaged in business under the “permitted” category and its total investment was less than US\$300 million at the relevant time. Our PRC legal adviser, Jingtian & Gongcheng, further confirmed that the PRC laws and regulations do not stipulate specified penalty for delay in obtaining approval for the abovementioned transfers, and that Red Kids China will not be subject to any penalty by the relevant authorities with regard to the same.

Pursuant to a board resolution of Red Kids Light Textile dated November 30, 2007, the directors of Red Kids Light Textile resolved to change its name to Red Kids China, increase both its total investment and registered capital from HK\$10 million and HK\$8 million, respectively, to HK\$50 million, and change its scope of business to manufacturing of garment, shoes and hats, socks, suitcases and bags, stationery, wholesale and retail of garment, shoes and hats, socks, suitcases and bags, stationery (without shops). Red Kids Light Textile obtained a new business licence reflecting the above changes dated January 9, 2008 and its name change into Red Kids China was effective on that date. Pursuant to another board resolution of Red Kids China dated May 23, 2008, the board of Red Kids China resolved to change its scope of business to manufacturing of garment, shoes and hats, socks, suitcases and bags, stationery, wholesale and retail of garment, shoes and hats, socks, suitcases and bags, stationery. The above change was evidenced by the new business licence of Red Kids China dated October 22, 2008. On October 18, 2010 and December 23, 2010, the board of Red Kids China further resolved to increase its total investment amount to HK\$100 million and increase its registered capital to HK\$70 million, respectively. According to a capital verification report issued by an independent third party auditor, as of January 5, 2011, 100% of the increased registered capital of Red Kids China has been paid up. On March 21, 2013, the board of Red Kids China further resolved to increase its total investment amount to HK\$200 million and increase its registered capital to HK\$140 million, respectively. According to a capital verification report issued by an independent third party auditor, as of April 26, 2013, 100% of the increased registered capital of Red Kids China has been paid up. On July 15, 2013, the board of Red Kids China further resolved to increase its total investment amount to HK\$220 million and increase its registered capital to HK\$160 million, respectively. According to a capital verification report issued by an independent third party auditor, 100% of the increased registered capital of Red Kids China has been paid up in August 2013.

Miko Shanghai

Miko Shanghai was established on June 24, 2013 as a WFOE with an initial total investment of HK\$30 million and an initial registered capital of HK\$20 million, to engage in the business of management of self-operated retail outlets. At the time of its establishment, Miko Shanghai was wholly-owned by Red Kids HK, which was in turn wholly-owned by our Company. According to a

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capital verification report issued by an independent third party auditor, 100% of the registered capital of Miko Shanghai has been paid up in July 2013.

History of our Company and our other Subsidiaries

Our Company

Our Company was incorporated in the Cayman Islands on March 15, 2013 as a limited liability company with an authorized share capital of HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. It is an investment holding company. At the time of incorporation, Codan Trust Company (Cayman) Limited subscribed for one Share of the Company, representing 100% of its issued share capital, at par value. On the same date, Codan Trust Company (Cayman) Limited transferred its one Share in our Company to Think Wise at par value, and Think Wise subscribed for 99 additional Shares at par value.

For details of the changes in the shareholding structure of our Company since incorporation, see the paragraph headed “Corporate Reorganization” in this section below.

Obvious Cheer

Obvious Cheer was incorporated in the BVI on January 2, 2013 as a limited liability company with an authorized share capital of US\$50,000 divided into 50,000 shares of US\$1.0 each. It is an investment holding company. On March 22, 2013, our Company subscribed for 1 share of US\$1.0, representing 100% of the issued share capital of Obvious Cheer.

Red Kids HK

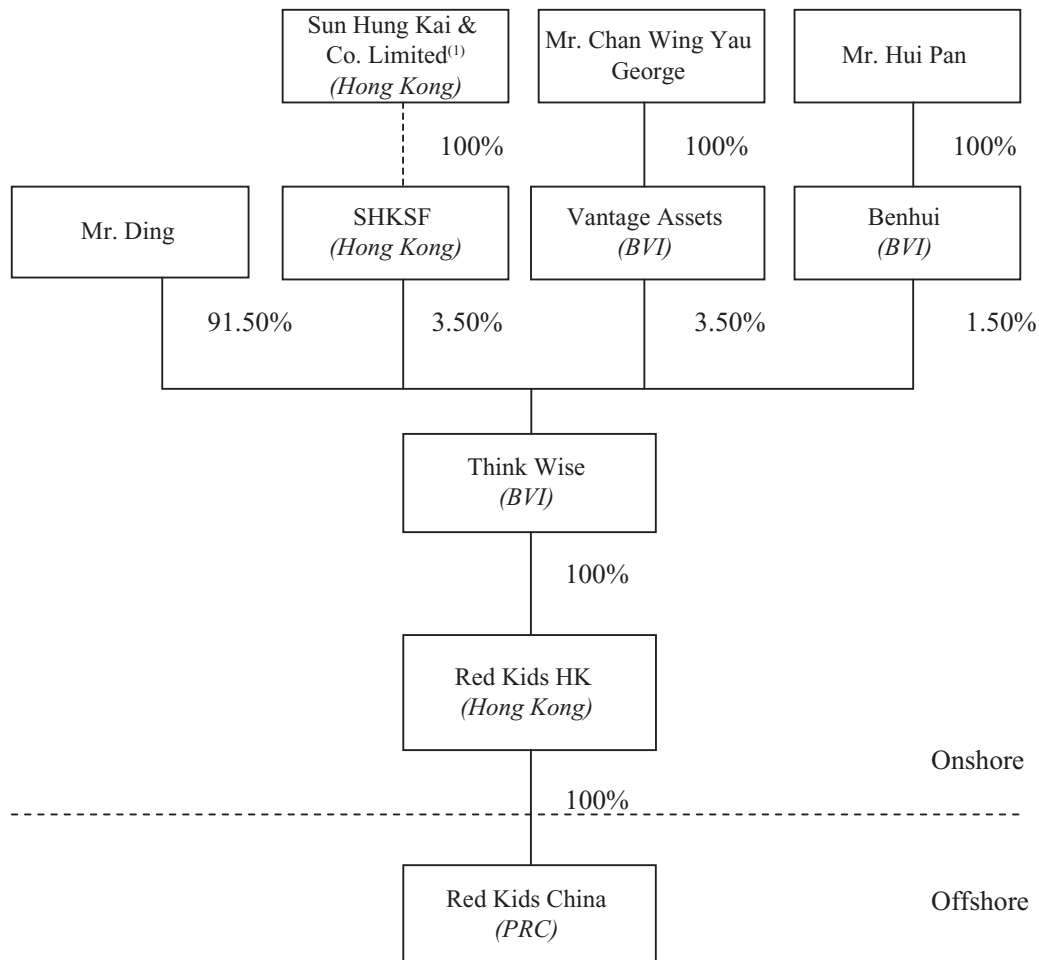
Red Kids HK was incorporated in Hong Kong on July 29, 2005 as a limited liability company with an authorized share capital of HK\$500,000 divided into 100,000 shares of HK\$5.0 each. On August 3, 2005, Mr. Ding and Mr. Ding Peiyuan (a younger brother of Mr. Ding), subscribed for 70,000 shares and 30,000 shares in the capital of Red Kids HK at par value, representing 70% and 30% of its total issued share capital at the time. On August 31, 2005, Mr. Ding transferred his 70% interest in Red Kids HK to Mr. Ding Peiyuan for a nominal consideration of HK\$70,000, agreed between the parties given their close family relationship so that Mr. Ding Peiyuan became 100% registered shareholder of Red Kids HK. At the relevant time, Red Kids Light Textile, which was 100% owned by Red Kids HK, was mainly engaged in the export sales of children’s apparel as Mr. Ding Peiyuan was primarily responsible for export sales, both Mr. Ding and Mr. Ding Peiyuan considered that arranging Mr. Ding Peiyuan to become a 100% shareholder of Red Kids Light Textile would better facilitate Mr. Ding Peiyuan to negotiate with overseas customers of Red Kids Light Textile. On October 5, 2010, Mr. Ding Peiyuan transferred his 100% equity interest in Red Kids HK back to Mr. Ding for a consideration of HK\$500,000, which was equal to the par value of the issued shares of Red Kids HK. Such transfer was effected because at the relevant time, the reason for arranging Mr. Ding Peiyuan as the 100% shareholder of Red Kids China was no longer relevant given that Red Kids China has focused primarily on domestic sales of children’s apparels since 2008. We have incurred initial investment costs for marketing and brand promotion activities in 2008 and 2009, resulting in our Group’s accumulated loss prior to January 1, 2010. The transfer of shares to Mr. Ding was a transaction between shareholders that had no impact on the financial information of Red Kids HK or the basis of preparation of the Accountants’ Report which was prepared as a continuation of Red Kids HK throughout the Track Record Period. On December 8, 2010, Mr. Ding transferred his 100% shares

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in Red Kids HK to Think Wise for a consideration of HK\$500,000, which was equal to the par value of the issued shares of Red Kids HK, in preparation of the investment by SHKSF, Vantage Assets and Benhui. On April 16, 2013, in preparation of the investment by Chance Talent, Think Wise transferred its 100% shares in Red Kids HK to Obvious Cheer, in consideration of Obvious Cheer procuring our Company to issue 9,050 new Shares to Think Wise. As a result, Red Kids HK became a wholly-owned subsidiary of Obvious Cheer.

GROUP STRUCTURE PRIOR TO CORPORATE REORGANIZATION AND THE PRE-IPO INVESTMENTS

The corporate chart below illustrates the beneficial shareholders and subsidiaries of our Group immediately prior to the Corporate Reorganization:



Notes:

(1) Sun Hung Kai & Co. Limited, a company listed on the Stock Exchange (stock code: 86), indirectly controls 100% interest of SHKSF.

HISTORY AND CORPORATE STRUCTURE

CORPORATE REORGANIZATION

In order to rationalize our organizational structure, our Group underwent the Corporate Reorganization prior to the Listing which involved the following steps:

- (a) Our Company was incorporated in the Cayman Islands on March 15, 2013 with an authorized share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. At the time of incorporation, Codan Trust Company (Cayman) Limited subscribed for one Share of the Company, representing 100% of its issued share capital, at par value. On the same date, Codan Trust Company (Cayman) Limited transferred its one Share in our Company to Think Wise at par value, and Think Wise subscribed for 99 additional Shares at par value. Upon completion of such transfer and subscription of Shares, our Company became wholly-owned by Think Wise.
- (b) Obvious Cheer was incorporated in the BVI on January 2, 2013 with an authorized share capital of US\$50,000 divided into 50,000 shares of US\$1.0 each. On March 22, 2013, our Company subscribed for one share of Obvious Cheer at par value, and Obvious Cheer became a wholly-owned subsidiary of our Company.
- (c) On April 16, 2013, Obvious Cheer acquired 100% of the issued share capital of Red Kids HK from Think Wise. As consideration, Obvious Cheer procured our Company to issue 9,050 new Shares to Think Wise. Upon completion of such acquisition, Red Kids HK became a wholly-owned subsidiary of Obvious Cheer.
- (d) On April 16, 2013, Think Wise subscribed for 9,050 new Shares of our Company at par value, such that the total number of issued Shares of our Company became 9,150, and our Company remained 100% wholly-owned by Think Wise.
- (e) On April 17, 2013, Mr. Ding acquired 350, 350 and 150 shares of Think Wise from each of SHKSF, Vantage Assets and Benhui, representing 8.5% of the total issued share capital of Think Wise in aggregate. As consideration, Mr. Ding procured our Company to issue 350, 350 and 150 new Shares to each of SHKSF, Vantage Assets and Benhui, representing a total of 8.5% of the total number of issued Shares as enlarged by such issuance. Upon completion of such acquisition and issuance, Think Wise became 100% owned by Mr. Ding, and our Company became held as to 91.5%, 3.5%, 3.5% and 1.5% by each of Think Wise, SHKSF, Vantage Assets and Benhui respectively.
- (f) On April 17, 2013, Think Wise, Chance Talent, Mr. Ding and our Company entered into an investment agreement, pursuant to which, among other things, Chance Talent agreed to subscribe for Exchangeable Notes to be issued by Think Wise.
- (g) On June 17, 2013, Think Wise transferred 165 and 105 Shares of our Company to each of SHKSF and Vantage Assets at par value. The 105 Shares (out of the 165 Shares) transferred to SHKSF and the 105 Shares transferred to Vantage Assets were to give effect to the spirit of the pre-IPO investment agreements and related shareholder agreement entered into between Think Wise and each of them (for further details, please refer to the paragraph headed "Investment by our pre-IPO investors" below). The other 60 Shares transferred by Think Wise to SHKSF was pursuant to a financial consultancy service agreement entered into between Mr. Ding and SHKSF dated January 7, 2013, under which the financial consultancy services fee was agreed to be HK\$6.4 million.

HISTORY AND CORPORATE STRUCTURE

According to a supplemental agreement dated September 14, 2013 entered into between the same parties formalizing their previous verbal understanding, it was confirmed and agreed that out of the financial consultancy services fee of HK\$6.4 million, HK\$3.2 million, representing 50% of the financial consultancy services fee payable was to be borne by Mr. Ding for financial consultancy services provided to him personally, and HK\$3.2 million, representing the remaining 50% of the financial consultancy services fee payable, was to be borne by our Group for financial consultancy services provided to our Group. Pursuant to the financial consultancy services agreement, SHKSF provided advices to Mr. Ding and the Group on, among other things, the Corporate Reorganization, negotiation of the terms of investment by subsequent pre-IPO investor, introduction of potential investors to our Group, selection of professional advisers in connection with our Group's preparation of application for the Listing and their terms of engagement, and other general advice on strengthening of corporate and financial management of our Group, all of which have been provided during the period between July 2011 and February 2013. The transfer of 60 Shares in our Company in substitution of the financial consultancy services fee of HK\$6.4 million was agreed between Mr. Ding and SHKSF by reference to, among other things, an agreed upon valuation of our Group when the parties reached consensus to use Shares to settle the financial consultancy services fee in January 2013, the opportunity cost for SHKSF of not receiving cash immediately, and the illiquidity of our Shares prior to our successful Listing. In respect of the financial consultancy services provided to Mr. Ding for his own benefit, the fair value of such services was determined based on 30 Shares of approximately RMB2.7 million and these costs were not reflected as a cost of the Group and not reflected in the profit or loss account and any reserve of our Company. In respect of the financial consultancy services provided to the Group in respect of the Listing, the fair value of such services was determined based on the remaining 30 Shares of approximately RMB2.7 million, out of which RMB1.9 million relating to the listing of the existing Shares were recognized as an expense in the six months ended June 30, 2013 and the remaining RMB0.8 million relating to the issue of new Shares upon Listing would be debited against equity upon collection of proceeds from the Global Offering.

Upon completion of such transfers, our Company became held as to 88.8%, 5.15%, 4.55% and 1.5% by each of Think Wise, SHKSF, Vantage Assets and Benhui.

- (h) On March 15, 2013, Opulent Ample was incorporated in the BVI with an authorized and issued share capital of US\$50,000 divided into 50,000 shares of US\$1.0 each. On May 6, 2013, Mr. Ding Weizhu (丁為祝), the father of Mr. Ding, Ms. Ding Lizhen (丁麗真) and Mr. Ding Peiyuan (丁培源), all executive Directors and Ms. Ting Lai Yan (丁麗仁), subscribed for one share in the capital of Opulent Ample at par value, and Opulent Ample became 100% owned by Mr. Ding Weizhu.

On March 6, 2013, Snowy Wise was incorporated in the BVI with an authorized and issued share capital of US\$50,000 divided into 50,000 shares of US\$1.0 each. On May 6, 2013, Ms. Ding Lizhen, an elder sister of Mr. Ding and Mr. Ding Peiyuan, subscribed for one share in the capital of Snowy Wise at par value, and Snowy Wise became 100% owned by Ms. Ding Lizhen.

On March 8, 2013, Rightful Style was incorporated in the BVI with an authorized and issued share capital of US\$50,000 divided into 50,000 shares of US\$1.0 each. On May 6, 2013, Mr. Ding Peiyuan, a younger brother of Mr. Ding and Ms. Ding Lizhen, subscribed for one share in the capital of Rightful Style at par value, and Rightful Style became 100% owned by Mr. Ding Peiyuan.

HISTORY AND CORPORATE STRUCTURE

On January 2, 2013, Splendid First was incorporated in the BVI with an authorized and issued share capital of US\$50,000 divided into 50,000 shares of US\$1.0 each. On May 6, 2013, Ms. Ting Lai Yan, an elder sister of Mr. Ding, Ms. Ding Lizhen and Mr. Ding Peiyuan, subscribed for one share in the capital of Splendid First at par value, and Splendid First became 100% owned by Ms. Ting Lai Yan.

On February 15, 2013, Wind Dove was incorporated in the BVI with an authorized and issued share capital of US\$50,000 divided into 50,000 shares of US\$1.0 each. On May 6, 2013, Ms. Ding Luping (丁璐萍), the sister-in-law of Mr. Ding, subscribed for one share in the capital of Wind Dove at par value, and Wind Dove became 100% owned by Ms. Ding Luping.

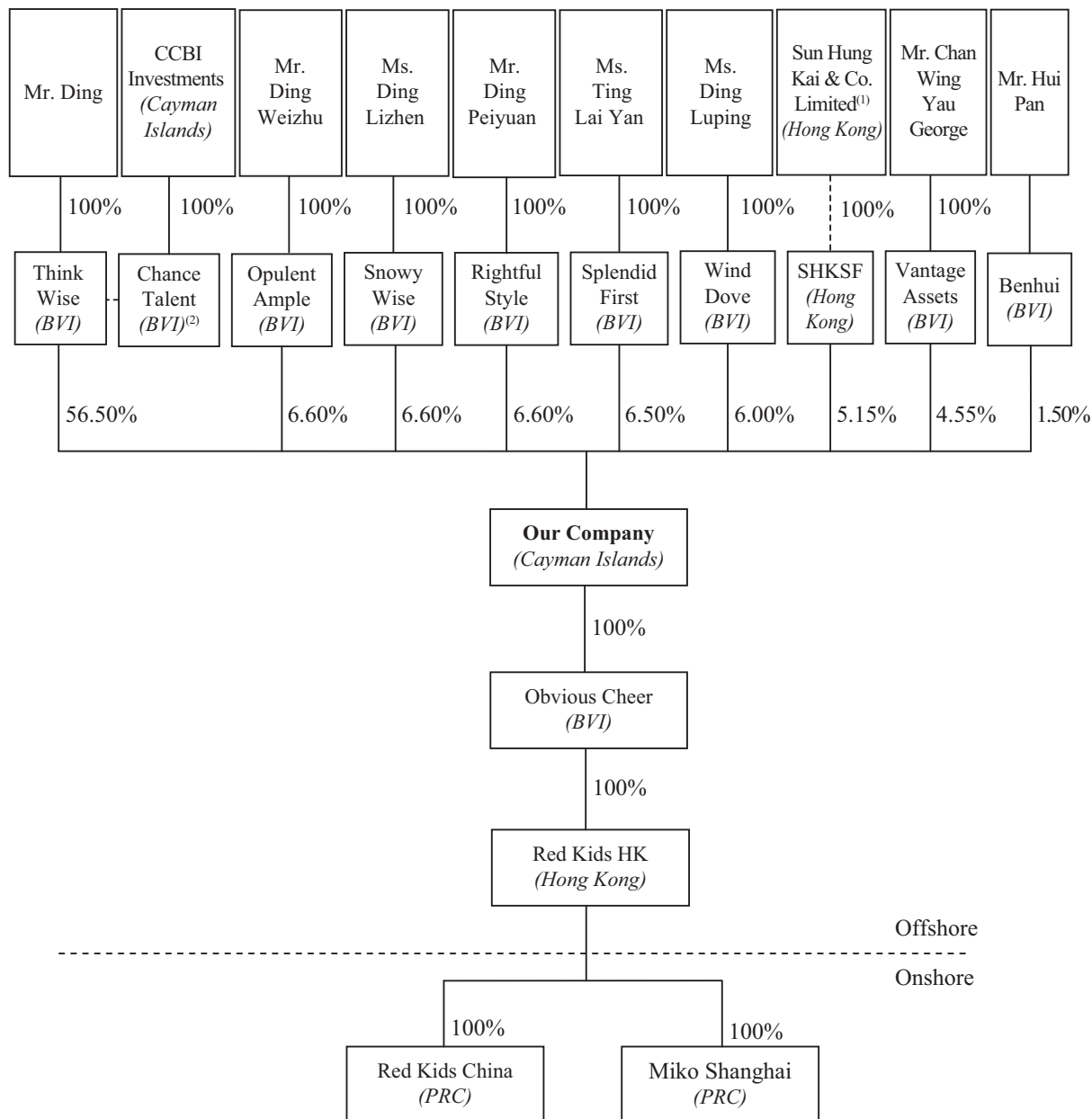
On June 17, 2013, each of Think Wise, SHKSF, Vantage Assets, Benhui, Opulent Ample, Snowy Wise, Rightful Style, Splendid First and Wind Dove subscribed for 556,120, 50,985, 45,045, 14,850, 66,000, 66,000, 66,000, 65,000 and 60,000 Shares in our Company at par value of HK\$5,561.20, HK\$509.85, HK\$450.45, HK\$148.50, HK\$660, HK\$660, HK\$660, HK\$650 and HK\$600. Upon completion of such subscriptions, our Company became held as to 56.50% (565,000 Shares) by Think Wise, 5.15% (51,500 Shares) by SHKSF, 4.55% by Vantage Assets (45,500 Shares), 1.50% (15,000 Shares) by Benhui, 6.60% (66,000 Shares) by Opulent Ample, 6.60% (66,000 Shares) by Snowy Wise, 6.60% (66,000 Shares) by Rightful Style, 6.50% (65,000 Shares) by Splendid First and 6.00% (60,000 Shares) by Wind Dove.

- (i) On June 24, 2013, Miko Shanghai was established in the PRC with a total investment and registered capital of RMB30 million and RMB20 million respectively. It is engaged in the business of management of self-operated retail outlets and is a wholly-owned subsidiary of Red Kids HK.

HISTORY AND CORPORATE STRUCTURE

GROUP STRUCTURE AFTER CORPORATE REORGANIZATION AND THE PRE-IPO INVESTMENTS

The corporate structure of our Group after the Corporate Reorganization and the pre-IPO investments is set out below:



Notes:

- (1) Sun Hung Kai & Co. Limited, a company listed on the Stock Exchange (stock code: 86), indirectly controls 100% interest of SHKSF.
- (2) Pursuant to an investment agreement dated April 17, 2013, Chance Talent has subscribed for the Exchangeable Notes issued by Think Wise. Upon exercise of the exchange right under the Exchangeable Notes, Chance Talent will be entitled to request Think Wise to transfer certain Shares held by Think Wise to it. For further details of the Exchangeable Notes, please refer to the paragraph headed "Principal terms of the Exchangeable Notes" in this section.

HISTORY AND CORPORATE STRUCTURE

INVESTMENTS BY OUR PRE-IPO INVESTORS

We have introduced several pre-IPO investors prior to the Listing.

Our pre-IPO investors enjoyed certain special rights as set out in the table below, all of which will be terminated upon the Listing.

A summary of the key particulars of the investment by our pre-IPO investors is set out below:

<u>Name of investor</u>	<u>SHKSF</u>	<u>Vantage Assets</u>	<u>Benhui</u>	<u>Chance Talent</u>
<i>Background of investor</i>	SHKSF is a company incorporated in Hong Kong and is principally engaged in the business of structured financing. SHKSF is an indirect wholly-owned subsidiary of Sun Hung Kai & Co. Limited, a company listed on the Stock Exchange. Prior to making an investment into our Group, SHKSF and its beneficial owner, Sun Hung Kai & Co. Limited (stock code: 86), were independent from our Company and the connected persons of our Company.	Investment holding company incorporated in the BVI and is beneficially owned by Mr. Chan Wing Yau George. Mr. Chan Wing Yau George is an individual investor and a business contact of Mr. Ding. Prior to making an investment into our Group, Vantage Assets and its beneficial owner were independent from our Company and connected persons of our Company.	Investment holding company incorporated in the BVI and is beneficially owned by Mr. Hui Pan. Mr. Hui Pan is an individual investor and a business contact of Mr. Ding. Prior to making an investment into our Group, Benhui and its beneficial owner were independent from our Company and connected persons of our Company.	Chance Talent is a company incorporated in the BVI and is a wholly-owned subsidiary of CCBI Investments. CCBI Investments is an investment company incorporated in the Cayman Islands. The ultimate beneficial owner of CCBI Investments is China Construction Bank Corporation, a company listed on the Main Board of the Stock Exchange (stock code: 939) and the Shanghai Stock Exchange (stock code: 601939). Prior to making an investment into our Group, Chance Talent and its beneficial owner were independent from

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<u>Name of investor</u>	<u>SHKSF</u>	<u>Vantage Assets</u>	<u>Benhui</u>	<u>Chance Talent</u>
				our Company and the connected persons of our Company.
<i>Date of relevant agreement</i>	June 29, 2011 (being the date of the investment agreement under which SHKSF first invested into our Group by acquiring shares of Think Wise from Mr. Ding and the date of the shareholders' agreement between Mr. Ding, Think Wise and SHKSF in relation to the regulation of certain rights and obligations of the shareholders of our Group), January 7, 2013 (being the date of the financial consultancy services agreement entered into between Mr. Ding and SHKSF), and April 17, 2013 (being the date of the supplemental agreement to the shareholders agreement dated June 29, 2011 pursuant to which certain terms thereto, including the conditions to a qualified IPO and the circumstances under which SHKSF may	June 29, 2011 (being the date of the investment agreement under which Majestic Treasure Limited (“Majestic Treasure”), which was owned by an Independent Third Party, from which Vantage Assets acquired the shares of Think Wise, first invested into our Group by acquiring shares of Think Wise from Mr. Ding), July 8, 2011 (being the date of the shareholders' agreement between Mr. Ding, Think Wise and Majestic Treasure in relation to the regulation of certain rights and obligations of the shareholders of our Group), December 18, 2012 (being the date of the instrument of transfer signed by Majestic Treasure and Vantage Assets in relation to the transfer of shares in Think Wise) and April 17, 2013 (being the date of	June 30, 2011	April 17, 2013

HISTORY AND CORPORATE STRUCTURE

<u>Name of investor</u>	<u>SHKSF</u>	<u>Vantage Assets</u>	<u>Benhui</u>	<u>Chance Talent</u>
	exercise the put option was amended) and September 14, 2013 (being the date of the supplemental confirmation letter to the financial consultancy services agreement entered into between Mr. Ding and SHKSF dated January 7, 2013 pursuant to which the parties confirmed, among other things, the details of the services provided by SHKSF to each of Mr. Ding personally and to our Group)	the supplemental agreement to the shareholders agreement dated July 8, 2011 pursuant to which certain terms thereto, including the conditions to a qualified IPO and the circumstances under which Vantage Assets may exercise the put option was amended)		
<i>Consideration</i>	HK\$50,000,000 and provision of certain corporate advisory and financing consultancy services by SHKSF	HK\$50,000,000	HK\$21,428,571	US\$15,000,000
<i>Payment date</i>	June 29, 2011	June 29, 2011	June 30, 2011	April 18, 2013
<i>Basis of determination of consideration</i>	Arm's length negotiations between Mr. Ding and SHKSF, who were parties to the relevant agreement, and determined by reference to the valuation and growth potential of our business as assessed by the parties.	Arm's length negotiations between Mr. Ding and Mr. Chan Wing Yau George, who were beneficial owner to the parties to the relevant agreement, and determined by reference to the valuation and growth potential of our business as assessed by the parties.	Arm's length negotiations between Mr. Ding and Mr. Hui Pan, who were beneficial owner to the parties to the relevant agreement, and determined by reference to the valuation and growth potential of our business as assessed by the parties.	Arm's length negotiations between Think Wise, Mr. Ding, our Company and Chance Talent, who were parties to the relevant agreement, and determined by reference to the valuation and the growth potential of our business as assessed by the parties.

HISTORY AND CORPORATE STRUCTURE

<u>Name of investor</u>	<u>SHKSF</u>	<u>Vantage Assets</u>	<u>Benhui</u>	<u>Chance Talent</u>
<i>Investment cost per Share</i>	Approximately HK\$1.52. Based on the indicative Offer Price range, representing a discount of approximately 5.00% to HK\$1.60 per Share, being the lower end of the stated Offer Price range, and a discount of approximately 34.48% to HK\$2.32 per Share, being the upper end of the stated Offer Price range.	Approximately HK\$1.72. Based on the indicative Offer Price range, representing a premium of approximately 7.50% to HK\$1.60 per Share, being the lower end of the stated Offer Price range, and a discount of approximately 25.86% to HK\$2.32 per Share, being the upper end of the stated Offer Price range.	Approximately HK\$2.23. Based on the indicative Offer Price range, representing a premium of approximately 39.38% to HK\$1.60 per Share, being the lower end of the stated Offer Price range, and a discount of approximately 3.88% to HK\$2.32 per Share, being the upper end of the stated Offer Price range.	Approximately HK\$0.96 based on the lower end of the stated Offer Price range of HK\$1.60 per Share, and approximately HK\$1.39 based on the upper end of the stated Offer Price range of HK\$2.32 per Share, representing a discount of approximately 40% in both cases.
<i>Use of proceeds</i>	For capital increase of Red Kids China and its' general working capital, which has been fully utilized.	For capital increase of Red Kids China and its' general working capital, which has been fully utilized.	For capital increase of Red Kids China and its' general working capital, which has been fully utilized.	For (i) E-commerce development, product development, sales and marketing, development of new sales channels; (ii) payment of interest or other payables pursuant to the other transaction agreements relating to the investment by Chance Talent; (iii) paying costs and expenses incurred in connection with the Listing; and (iv) injection of capital into other members of our Group.

HISTORY AND CORPORATE STRUCTURE

Name of investor	SHKSF	Vantage Assets	Benhui	Chance Talent
Shareholding in our Company upon Listing (Assuming the Over-allotment Option is not exercised and none of the options granted under the Pre-IPO Share Option Scheme or to be granted under the Share Option Scheme are exercised)	4.12%	3.64%	1.20%	5.44-12.36%(Note)
Strategic benefits to our Group	Strengthening of our capital and shareholder base, enhancement of corporate governance practices	Strengthening of our capital and shareholder base, enhancement of corporate governance practices	Strengthening of our capital and shareholder base, enhancement of corporate governance practices	Strengthening of our capital and shareholder base, enhancement of corporate governance practices
Special rights	1) Entitlement to share charge: In the event that our Group charge shares of our Group in favor of subsequent pre-IPO investors in connection with future pre-IPO financing, SHKSF shall be entitled to a share charge of our Group in its favor proportional to its shareholding in our Group as against all pre-IPO investors 2) Anti-dilution prior to completion of a qualified IPO: If our Group issue new shares, SHKSF can by notice request us to issue	1) Entitlement to share charge: In the event that our Group charge shares of our Group in favor of subsequent pre-IPO investors in connection with future pre-IPO financing, Vantage Assets shall be entitled to a share charge of our Group in its favor proportional to its shareholding in our Group as against all pre-IPO investors 2) Anti-dilution prior to completion of a qualified IPO: If our Group issue new shares, Vantage Assets can	1) Anti-dilution prior to completion of a qualified IPO: If our Group issue new shares, Benhui can by notice request us to issue new shares or Mr. Ding to transfer shares to it at nominal consideration, so as to maintain its shareholding proportion in our Group The above-mentioned special right enjoyed by Benhui will be terminated upon the Listing.	1) Reserved matters: Without the prior written consent of Chance Talent, Think Wise shall not and shall not permit our Group to effect certain matters, such as the borrowing of money or creation of encumbrance over assets by certain subsidiaries of our Group of significant amount, lending of money to other persons, material acquisitions or disposal of any material assets not in the ordinary

Note: The number of Shares to be transferred to Chance Talent upon exercise by Chance Talent of the exchange rights under the Exchangeable Notes will vary pursuant to the terms of the Exchangeable Notes. For illustration purposes only, adopting the mid-point of the indicative Offer Price range of HK\$1.96 per Share:

- (a) *in the event of the automatic exercise of exchange rights in respect of 44% of the principal amount of the Exchangeable Notes upon completion of the Global Offering, Chance Talent will hold approximately 5.44% Shares upon the Listing; and*
- (b) *in the event that the exchange rights in respect of 100% of the principal amount of the Exchangeable Notes is exercised upon completion of the Global Offering, Chance Talent will hold approximately 12.36% Shares upon the Listing.*

HISTORY AND CORPORATE STRUCTURE

Name of investor	SHKSF	Vantage Assets	Benhui	Chance Talent
	new shares or Mr. Ding to transfer shares to it at nominal consideration, so as to maintain its shareholding proportion in our Group	by notice request us to issue new shares or Mr. Ding to transfer shares to it at nominal consideration, so as to maintain its shareholding proportion in our Group		course of business of our Group, issuance of shares, securities, loan capital or other rights with right of conversion into or exchangeable for shares equity securities of Think Wise or members of our Group, alternation of the rights of holders of the Exchange Note, change of business nature, declaration and payment of dividend, formation of joint venture with other parties, adoption or amendment of employee incentive scheme, disposal of equity interest or assets.
	3) Reserved matters: For as long as SHKSF's shareholding in our Group is not lower than 3.5% (excluding dilution as a result of implementation of any employee share incentive scheme), certain matters, including material acquisitions or mergers, liquidation or deregistration of any member of our Group, initiating any litigation other than in the ordinary course of business of our Group, adoption of employee share incentive scheme, change of the primary scope of business activities of our Group, shall not be effected without the prior written consent of SHKSF.	3) Reserved matters: For as long as Vantage Assets's shareholding in our Group is not lower than 3.5% (excluding dilution as a result of implementation of any employee share incentive scheme), certain matters, including material acquisitions or mergers, liquidation or deregistration of any member of our Group, initiating any litigation other than in the ordinary course of business of our Group, adoption of employee share incentive scheme, change of the primary scope of business activities of our Group, shall not be effected without the prior written consent of Vantage Assets.		2) Board observer: Chance Talent shall be entitled to nominate an observer to our board who shall be entitled to receive all board meeting notices and papers but with no voting right on board meetings.
	4) Board observer: For as long as SHKSF's shareholding in our Group is not lower than 3.5% (excluding dilution as a result of	4) Board observer: For as long as Vantage Assets' shareholding in our Group is not lower than 3.5% (excluding dilution		3) Information rights: Chance Talent shall be entitled to receive unaudited quarterly and annual income statements and cash flow statements of Think Wise and our Group

HISTORY AND CORPORATE STRUCTURE

Name of investor	SHKSF	Vantage Assets	Benhui	Chance Talent
	<p>implementation of any employee share incentive scheme), SHKSF shall be entitled to nominate an observer to our board who shall be entitled to receive all board meeting notices and papers but with no voting right on board meetings</p> <p>5) Consent for transfer of shares by controlling shareholder's transfer: Any transfer by Mr. Ding, his family, persons connected with him or any trust in which he is a beneficiary that would result in their collective shareholding in our Group to fall under 65% shall require the prior consent of SHKSF</p> <p>6) Put option: If our Group cannot achieve a qualified IPO on the Stock Exchange or other internationally renowned stock exchange with a market capitalization of no less than HK\$2,500,000,000 within 36 months from June 29, 2011, SHKSF shall be entitled to request Mr. Ding to purchase all shares held by SHKSF in our Group at a price equal to the investment costs of</p>	<p>as a result of implementation of any employee share incentive scheme), Vantage Assets shall be entitled to nominate an observer to our board who shall be entitled to receive all board meeting notices and papers but with no voting right on board meetings</p> <p>5) Consent for transfer of shares by controlling shareholder's transfer: Any transfer by Mr. Ding, his family, persons connected with him or any trust in which he is a beneficiary that would result in their collective shareholding in our Group to fall under 65% shall require the prior consent of Vantage Assets</p> <p>6) Put option: If our Group cannot achieve a qualified IPO on the Stock Exchange or other internationally renowned stock exchange with a market capitalization of no less than HK\$2,500,000,000 within 36 months from June 29, 2011, Vantage Assets shall be entitled to request Mr. Ding to purchase all shares held by Vantage Assets in our Group</p>		<p>4) Most favored terms: If Think Wise or our Group issue further shares, debt or equity securities, options, bonds, notes or other similar rights to any party other than Think Wise in future on terms more favorable than those under the investment agreements with Chance Talent, Chance Talent shall be entitled to the same more favorable terms</p> <p>All the above-mentioned special rights enjoyed by Chance Talent will be terminated upon the Listing, when all liabilities with respect to the Exchangeable Notes and the other transaction documents in connection with the Exchangeable Notes have been fully released or discharged.</p>

HISTORY AND CORPORATE STRUCTURE

Name of investor	SHKSF	Vantage Assets	Benhui	Chance Talent
	<p>SHKSF multiplied by a fixed rate and the duration of the investment held by SHKSF. Based on the indicative Offer Price range of HK\$1.60 to HK\$2.32 per Share, the expected market capitalization of the Company will be less than HK\$2,500,000,000. Accordingly, SHKSF will be entitled to exercise the put option to request Mr. Ding to acquire Shares held by SHKSF. Pursuant to a waiver letter dated December 27, 2013, SHKSF has waived the requirement for the market capitalization of our Company upon Listing to be not less than HK\$2,500,000,000 provided our Company can complete the Listing on the Stock Exchange on or before January 31, 2014.</p> <p>7) Profit guarantee: If the audited consolidated net profit of our Group for 2012 is less than RMB150,000,000, SHKSF shall be entitled to request Mr. Ding to transfer, upon payment of nominal</p>	<p>at a price equal to the investment costs of Vantage Assets multiplied by a fixed rate and the duration of the investment held by Vantage Assets. Based on the indicative Offer Price range of HK\$1.60 to HK\$2.32 per Share, the expected market capitalization of the Company will be less than HK\$2,500,000,000. Accordingly, Vantage Assets will be entitled to exercise the put option to request Mr. Ding to acquire all the Shares held by Vantage Assets. Pursuant to a waiver letter dated December 27, 2013, Vantage Assets has waived the requirement for the market capitalization of our Company upon Listing to be not less than HK\$2,500,000,000 provided our Company can complete the Listing on the Stock Exchange on or before January 31, 2014.</p> <p>7) Profit guarantee: If the audited consolidated net profit of our Group for 2012 is less than RMB150,000,000, Vantage Assets shall be entitled to</p>		

HISTORY AND CORPORATE STRUCTURE

Name of investor	SHKSF	Vantage Assets	Benhui	Chance Talent
	<p>consideration, additional shares calculated by reference to the shortfall between RMB150,000,000 and the actual audited net profit of our Group. As disclosed in the paragraph headed “Corporate Reorganization” in this section above, Think Wise transferred 105 Shares of our Company to SHKSF in the course of Corporate Reorganization. Think Wise transferred Shares to SHKSF in performance of Mr. Ding’s obligations to transfer additional shares in Think Wise to SHKSF because the parties intended that SHKSF shall acquire Sharers of our Company rather than shares of Think Wise, as our Company will be the entity to be listed on the Main Board of the Stock Exchange under the Listing.</p> <p>All the above-mentioned special rights enjoyed by SHKSF will be terminated upon the Listing.</p>	<p>request Mr. Ding to transfer, upon payment of nominal consideration, additional shares calculated by reference to the shortfall between RMB150,000,000 and the actual audited net profit of our Group. As disclosed in the paragraph headed “Corporate Reorganization” in this section above, Think Wise transferred 105 Shares of our Company to Vantage Assets in the course of Corporate Reorganization. Think Wise transferred Shares to Vantage Assets in performance of Mr. Ding’s obligations to transfer additional shares in Think Wise to Vantage Assets because the parties intended that Vantage Assets shall acquire Sharers of our Company rather than shares of Think Wise, as our Company will be the entity to be listed on the Main Board of the Stock Exchange under the Listing.</p> <p>All the above-mentioned special</p>		

HISTORY AND CORPORATE STRUCTURE

Name of investor	SHKSF	Vantage Assets	Benhui	Chance Talent
		rights enjoyed by Vantage Assets will be terminated upon the Listing.		
<i>Lock-up</i>	Pursuant to the terms of the relevant agreement, and a lock-up undertaking dated December 27, 2013, the Shares held by SHKSF will be required to be locked up for 6 months from the Listing Date.	Pursuant to the terms of the relevant agreement, and a lock-up undertaking dated December 27, 2013, the Shares held by Vantage Assets will be required to be locked up for 6 months from the Listing Date.	The terms of the relevant agreement did not impose any lock-up obligations over the Shares held by Benhui upon the Listing. Pursuant to a lock-up undertaking dated December 27, 2013, Benhui has agreed all Shares held by it will be locked up for 6 months from the Listing Date.	The terms of the relevant agreement did not impose any lock-up obligations over the Shares held by Chance Talent upon the Listing. Chance Talent is expected to provide a lock up undertaking prior to the Listing Date pursuant to which it will undertake that all Shares held by it will be locked up for 6 months from the Listing Date.
<i>Public float</i>	Since the shareholding of SHKSF in our Company upon the Listing is less than 10%, the Shares held by SHKSF would be counted towards part of the public float.	Since the shareholding of Vantage Assets in our Company upon the Listing is less than 10%, the Shares held by Vantage Assets would be counted towards part of the public float.	Since the shareholding of Benhui in our Company upon the Listing is less than 10%, the Shares held by Benhui would be counted towards part of the public float.	In the event Chance Talent only exercise the exchange rights in respect of 44% of the principal amount of the Exchangeable Notes, the shareholding of Chance Talent in our Company upon the Listing will be less than 10%, in such case the Shares held by Chance Talent would be counted towards part of the public float. In the event Chance Talent exercise the exchange rights in respect of 100% of the principal amount of the Exchangeable Notes, the shareholding of Chance Talent in

HISTORY AND CORPORATE STRUCTURE

<u>Name of investor</u>	<u>SHKSF</u>	<u>Vantage Assets</u>	<u>Benhui</u>	<u>Chance Talent</u>
				our Company upon the Listing will be more than 10%, in such case the Shares held by Chance Talent would not be counted towards part of the public float.
<i>Accounting treatment for share-based payment</i>	<p>The Shares transferred by Think Wise to SHKSF in settlement of the service fee payable to SHKSF for the corporate advisory and financing consultancy services provided constituted share-based payment. Accordingly, the fair value of these Shares is estimated and the amount related to the listing of the existing equity of our Company is recognized as an expense in the year ending December 31, 2013. We determined the accounting treatment with reference to IFRS 2 Share-Based Payment and IAS32 Financial Instruments: Presentations.</p>			

HISTORY AND CORPORATE STRUCTURE

<u>Name of Investor</u>	<u>Opulent Ample</u>	<u>Snowy Wise</u>	<u>Rightful Style</u>	<u>Splendid First</u>	<u>Wind Dove</u>
<i>Background of investor</i>	Investment holding company incorporated in the BVI and is beneficially owned by Mr. Ding Weizhu, the father of Mr. Ding	Investment holding company incorporated in the BVI and is beneficially owned by Ms. Ding Lizhen, an elder sister of Mr. Ding	Investment holding company incorporated in the BVI and is beneficially owned by Mr. Ding Peiyuan, an executive Director, who is also a younger brother of Mr. Ding	Investment holding company incorporated in the BVI and is beneficially owned by Ms. Ting Lai Yan, an elder sister of Mr. Ding	Investment holding company incorporated in the BVI and is beneficially owned by Ms. Ding Luping, the sister-in-law of Mr. Ding
<i>Date of relevant agreement</i>	June 17, 2013	June 17, 2013	June 17, 2013	June 17, 2013	June 17, 2013
<i>Consideration</i>	HK\$660	HK\$660	HK\$660	HK\$650	HK\$600
<i>Payment date</i>	June 17, 2013	June 17, 2013	June 17, 2013	June 17, 2013	June 17, 2013
<i>Basis of determination of consideration</i>	Par value of the Shares being subscribed for in the course of the Corporate Reorganization as Mr. Ding, one of our Controlling Shareholders, intended to effect asset distribution arrangements among his family members by facilitating Opulent Ample to become a shareholder of our Company through subscription of Shares at par value	Par value of the Shares being subscribed for in the course of the Corporate Reorganization as Mr. Ding, one of our Controlling Shareholders, intended to effect asset distribution arrangements among his family members by facilitating Snowy Wise to become a shareholder of our Company through subscription of Shares at par value	Par value of the Shares being subscribed for in the course of the Corporate Reorganization as Mr. Ding, one of our Controlling Shareholders, intended to effect asset distribution arrangements among his family members by facilitating Rightful Style to become a shareholder of our Company through subscription of Shares at par value	Par value of the Shares being subscribed for in the course of the Corporate Reorganization as Mr. Ding, one of our Controlling Shareholders, intended to effect asset distribution arrangements among his family members by facilitating Splendid First to become a shareholder of our Company through subscription of Shares at par value	Par value of the Shares being subscribed for in the course of the Corporate Reorganization as Mr. Ding, one of our Controlling Shareholders, intended to effect asset distribution arrangements among his family members by facilitating Wind Dove to become a shareholder of our Company through subscription of Shares at par value

HISTORY AND CORPORATE STRUCTURE

<u>Name of Investor</u>	<u>Opulent Ample</u>	<u>Snowy Wise</u>	<u>Rightful Style</u>	<u>Splendid First</u>	<u>Wind Dove</u>
<i>Investment cost per Share</i>	Approximately HK\$0.000016. Based on the indicative Offer Price range, representing a discount of approximately 99.99% to HK\$1.60 per Share, being the lower end of the stated Offer Price range, and a discount of approximately 99.99% to HK\$2.32 per Share, being the upper end of the stated Offer Price range.	Approximately HK\$0.000016. Based on the indicative Offer Price range, representing a discount of approximately 99.99% to HK\$1.60 per Share, being the lower end of the stated Offer Price range, and a discount of approximately 99.99% to HK\$2.32 per Share, being the upper end of the stated Offer Price range.	Approximately HK\$0.000016. Based on the indicative Offer Price range, representing a discount of approximately 99.99% to HK\$1.60 per Share, being the lower end of the stated Offer Price range, and a discount of approximately 99.99% to HK\$2.32 per Share, being the upper end of the stated Offer Price range.	Approximately HK\$0.000016. Based on the indicative Offer Price range, representing a discount of approximately 99.99% to HK\$1.60 per Share, being the lower end of the stated Offer Price range, and a discount of approximately 99.99% to HK\$2.32 per Share, being the upper end of the stated Offer Price range.	Approximately HK\$0.000016. Based on the indicative Offer Price range, representing a discount of approximately 99.99% to HK\$1.60 per Share, being the lower end of the stated Offer Price range, and a discount of approximately 99.99% to HK\$2.32 per Share, being the upper end of the stated Offer Price range.
<i>Use of proceeds</i>	General working capital of our Group, which has been fully utilized.	General working capital of our Group, which has been fully utilized.	General working capital of our Group, which has been fully utilized.	General working capital of our Group, which has been fully utilized.	General working capital of our Group, which has been fully utilized.
<i>Shareholding in our Company upon Listing (Assuming the Over-allotment Option is not exercised and none of the options granted under the Pre-IPO Share Option Scheme and to be granted under the Share Option Scheme are exercised)</i>	5.28%	5.28%	5.28%	5.20%	4.80%

HISTORY AND CORPORATE STRUCTURE

<u>Name of Investor</u>	<u>Opulent Ample</u>	<u>Snowy Wise</u>	<u>Rightful Style</u>	<u>Splendid First</u>	<u>Wind Dove</u>
<i>Strategic benefits to our Group</i>	Enlarge our shareholder base.	Enlarge our shareholder base.	Enlarge our shareholder base.	Enlarge our shareholder base.	Enlarge our shareholder base.
<i>Special rights</i>	Nil	Nil	Nil	Nil	Nil
<i>Lock-up</i>	The terms of the relevant agreement did not impose any lock-up obligations over the Shares held by Opulent Ample upon the Listing. Pursuant to a lock-up undertaking dated December 27, 2013, Opulent Ample has agreed all Shares held by it will be locked up for 6 months from the Listing Date.	The terms of the relevant agreement did not impose any lock-up obligations over the Shares held by Snowy Wise upon the Listing. Pursuant to a lock-up undertaking dated December 27, 2013, Snowy Wise has agreed all Shares held by it will be locked up for 6 months from the Listing Date.	The terms of the relevant agreement did not impose any lock-up obligations over the Shares held by Rightful Style upon the Listing. Pursuant to a lock-up undertaking dated December 27, 2013, Rightful Style has agreed all Shares held by it will be locked up for 6 months from the Listing Date.	The terms of the relevant agreement did not impose any lock-up obligations over the Shares held by Splendid First upon the Listing. Pursuant to a lock-up undertaking dated December 27, 2013, Splendid First has agreed all Shares held by it will be locked up for 6 months from the Listing Date.	The terms of the relevant agreement did not impose any lock-up obligations over the Shares held by Wind Dove upon the Listing. Pursuant to a lock-up undertaking dated December 27, 2013, Wind Dove has agreed all Shares held by it will be locked up for 6 months from the Listing Date.
<i>Public Float</i>	Since Opulent Ample is beneficially owned by Mr. Ding Weizhu, a connected person of our Company, the Shares held by it would not be counted towards part of the public float.	Since Snowy Wise is beneficially owned by Ms. Ding Lizhen, a connected person of our Company, the Shares held by it would not be counted towards part of the public float.	Since Rightful Style is beneficially owned by Mr. Ding Peiyuan, a connected person of our Company, the Shares held by it would not be counted towards part of the public float.	Since Splendid First is beneficially owned by Ms. Ting Lai Yan, a connected person of our Company, the Shares held by it would not be counted towards part of the public float.	Since Wind Dove is beneficially owned by Ms. Ding Luping, a connected person of our Company, the Shares held by it would not be counted towards part of the public float.

All of the above pre-IPO investors are holding Shares in our Company except that Chance Talent was investing into our Group by way of subscription of the Exchangeable Notes issued by Think Wise.

HISTORY AND CORPORATE STRUCTURE

PRINCIPAL TERMS OF THE EXCHANGEABLE NOTES

The principal terms of the Exchangeable Notes are set out below:

Principal Amount:	US\$15,000,000
Status:	The Exchangeable Notes constitute senior, direct, unconditional and secured obligations of Think Wise and shall, at all times rank pari passu and without any preference or priority among themselves
Guarantee:	The performance obligations of Think Wise under the Exchangeable Notes is guaranteed by Mr. Ding
Maturity Date:	April 18, 2015, which can be extended to up to no later than April 18, 2016
Interest rate:	10% per annum or 12% per annum during any extended period after April 18, 2015
Payment of interest:	Semi annually on April 18 and October 18 each year during the term of the Exchangeable Notes
Rights:	The Exchangeable Notes do not enjoy any voting or other shareholder rights in respect of the Shares prior to the exchange into Shares.
Transferability:	The Exchangeable Notes are transferable
Exchange right:	The Exchangeable Notes are exchangeable into Shares
Exchange price:	At the Offer Price
Number of Shares exchangeable:	Determined in accordance with the following formula:

$$\frac{A \times B}{C}$$

Where:

A = the outstanding principal amount of the Exchangeable Notes in respect of which the exchange right is exercised

B = a fixed investment return on the outstanding principal amount of such Exchangeable Notes to be so exchanged. The investment return figure will vary depending on when the Listing is to take place.

C = Offer Price

Exchange arrangements:	Not later than 10 business days before any expected completion of the Listing, Think Wise shall deliver a notice in writing (the "IPO Notice") to Chance Talent stating the expected completion date of the Listing. Within 5 business days of receipt of the IPO Notice, Chance Talent may elect to exchange the Exchangeable Notes in whole or in part by delivery of an exchange notice together with the relevant certificate of the Exchangeable Notes, provided that 44% of the principal amount under the Exchangeable Notes shall be mandatorily exchanged into Shares immediately prior to completion of the Listing.
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HISTORY AND CORPORATE STRUCTURE

In respect of the remaining portion of the principal amount of the Exchangeable Notes (“Excessive Amount”), Chance Talent may elect to exercise the exchange right or require Think Wise to redeem the Excessive Amount at an amount that would yield an internal rate of return of 18% based on the principal amount of the Exchangeable Notes to be so redeemed (taking into consideration all interest payments received prior to redemption in respect of such part of the Exchangeable Notes to be so redeemed) (“Redemption Amount”) before completion of the Listing (for the avoidance of doubt, all Excessive Amount must be either exchanged or redeemed before the completion of the Listing) provided that within 5 business days after Chance Talent delivering the exchange notice electing to exercise the exchange right with respect to the Excessive Amount, Think Wise may elect to redeem all or part of the Excessive Amount and in which case, the exercise of such Exchange Right with respect to such Excessive Amount being redeemed shall not be effective.

In determining whether to exercise the exchange right in respect of the Excessive Amount, Chance Talent may take into account, among other things, their own assessment of the financial and trading prospects of our Group, market condition and whether the expected internal rate of return would exceed 18% upon conversion of the Excessive Amount. If Chance Talent elects to exercise the exchange rights, in determining whether to override Chance Talent’s decision and redeem the Excessive Amount, Think Wise may consider, among other things, the strategic benefit and market perception to our Group for allowing Chance Talent to retain a sizeable shareholding in our Company. Think Wise does not intend to redeem all or part of the Excessive Amount if Chance Talent elects to exercise the exchange right in respect of the Excessive Amount. In the event that Chance Talent elects to redeem the Excessive Amount, Think Wise will be able to settle the amount payable to Chance Talent by way of, among other options, dividend income from our Group, personal savings and other realizable and liquid assets of Mr. Ding and/or financing made available to it or Mr. Ding by personal and business contacts of Mr. Ding.

We will disclose the final principal amount of the Exchangeable Notes in respect of which Chance Talent has exercised its exchange rights in the allotment results announcement of our Company currently expected to be published on or about January 14, 2014.

Redemption upon maturity:

Unless previously redeemed, exchanged or cancelled as provided herein and except as otherwise provided herein, Think Wise shall redeem the Exchangeable Notes at the Redemption Amount (provided that no Event of Default has occurred after April 18,

HISTORY AND CORPORATE STRUCTURE

2013) on the date ending on the second anniversary of such date, or such later date as Think Wise and Chance Talent may agree in writing, but in any event such date shall be no later than the April 18, 2016.

Redemption as a result of a default: If an Event of Default occurs, Chance Talent may at any time thereafter issue a notice of default to Think Wise requiring redemption.

Redemption for no qualified IPO: If the Listing does not take place on or before October 18, 2014, Chance Talent may within five (5) business days after October 18, 2014 by notice in writing require Think Wise to redeem such outstanding principal amount of the Exchangeable Notes which is equal to not more than 40% of the original principal amount of the Exchangeable Notes, and Think Wise shall so redeem such Exchangeable Notes at the Redemption Amount within 40 business days of the notice.

Redemption at qualified IPO: Unless previously redeemed, exchanged or cancelled as provided herein, immediately before the completion of a qualified IPO, Think Wise shall redeem the outstanding principal amount of the Exchangeable Notes at the Redemption Amount.

No early redemption: None of the Exchangeable Notes may be redeemed in whole or in part by Think Wise prior to the maturity date.

Exchange upon Event of Default: If an Event of Default (as defined below) occurs, Chance Talent may at any time thereafter deliver to Think Wise an exchange notice and elect to exercise the exchange right and exchange the outstanding amount of the Exchangeable Notes (excluding default interest thereon) in whole or in part for such number of Shares as determined by the following formula:

$$N = \frac{(D / E) \times F}{0.7}$$

where

N = the number of Shares to be transferred to Chance Talent (or such other wholly owned subsidiary of CCB International (Holdings) Limited as Chance Talent may direct) upon the exchange;

D = the outstanding principal amount of the Exchangeable Notes exchanged together with any accrued and unpaid interest other than default interest;

E = the consolidated net asset value of our Company as shown in the last audited consolidated financial statement of our Company prior to the exchange date; and

F = the number of all outstanding and issued Shares as at the exchange date (including the number of Shares to be transferred upon the exchange).

For the purpose of the Exchangeable Notes, "Event of Default" means, in summary, the occurrence of among other things, any of the following events:

- (a) Think Wise fails to pay any principal or premium in respect of the Exchangeable Notes and such payment is overdue for five business days;

HISTORY AND CORPORATE STRUCTURE

- (b) Think Wise fails to pay any interest on any of the Exchangeable Notes or any of Mr. Ding or Think Wise (collectively, the “Covenantors”) fails to pay any amount under the transaction documents in connection with Chance Talent’s investment (“Transaction Documents”) and such payment is overdue for three business days;
- (c) a material default by the Convenantors in the performance or observance of any covenant, condition or provision contained in any of the Transaction Documents and the same is not remedied within five business days following the written request of Chance Talent;
- (d) Think Wise fails to transfer any Shares in accordance with the terms of the Exchangeable Notes;
- (e) (i) any other present or future indebtedness of any members of our Group or the Covenantors for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Covenantors or any member of our Group fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised; or (iv) any security given by any of Covenantors under any of the security documents in connection with the Exchangeable Notes has become enforceable;
- (f) a resolution is passed or an order of a court of competent jurisdiction is made for the bankruptcy, winding up or dissolution of any of the Covenantors or any members of our Group;
- (g) an encumbrancer takes possession or a receiver is appointed over the whole or a material part of the assets or undertaking of any of Mr. Ding, Think Wise or any member of our Group;
- (h) any step is taken by any person for the appointment of a liquidator (including provisional liquidator), receiver, judicial manager, trustee, administrator, agent or similar officer of any Covenantor or any member of our Group or over all or any part of the assets of any Covenantor or any member of Group;
- (i) (i) any step is taken by any judicial, governmental or administrative authority with a view to the seizure, compulsory acquisition, expropriation or nationalization of all or a material part of the assets of any Covenantor or any member of our Group or (ii) any Covenantor or any member of our Group is prevented from exercising normal control over all or a material part of its property, assets and revenue;
- (j) the audited consolidated net asset value of Red Kids China as shown in the audited financial statements issued by Red Kids China is at any time less than RMB250,000,000;
- (k) it is or becomes unlawful for a Covenantor to perform or the Covenantor is or may otherwise become unable to perform any of its obligations under the Transaction Documents to which it is a party;

HISTORY AND CORPORATE STRUCTURE

(l) occurrence of any material adverse effect on the business, results, operations, property or condition (financial or otherwise) of Think Wise and our Group taken as a whole except (i) such material adverse effect is due to effect generally affecting companies conducting our Group's business; and (ii) such effect is not caused by action or non-action of our Company and/or our Group;

(m) SHKSF exercising its right under the put option and Mr. Ding failing to pay and the share charge granted in favor of SHKSF in connection with SHKSF's investment into our Group becoming enforceable;

(n) Mr. Ding ceasing to have direct or indirect control over our Company either by way of ownership of 50% of voting rights or more or the appointment of majority of directors on our Board;

(o) Mr. Ding ceasing to have 100% interest in Think Wise; or

(p) any event occurs which has an analogous effect to the above events.

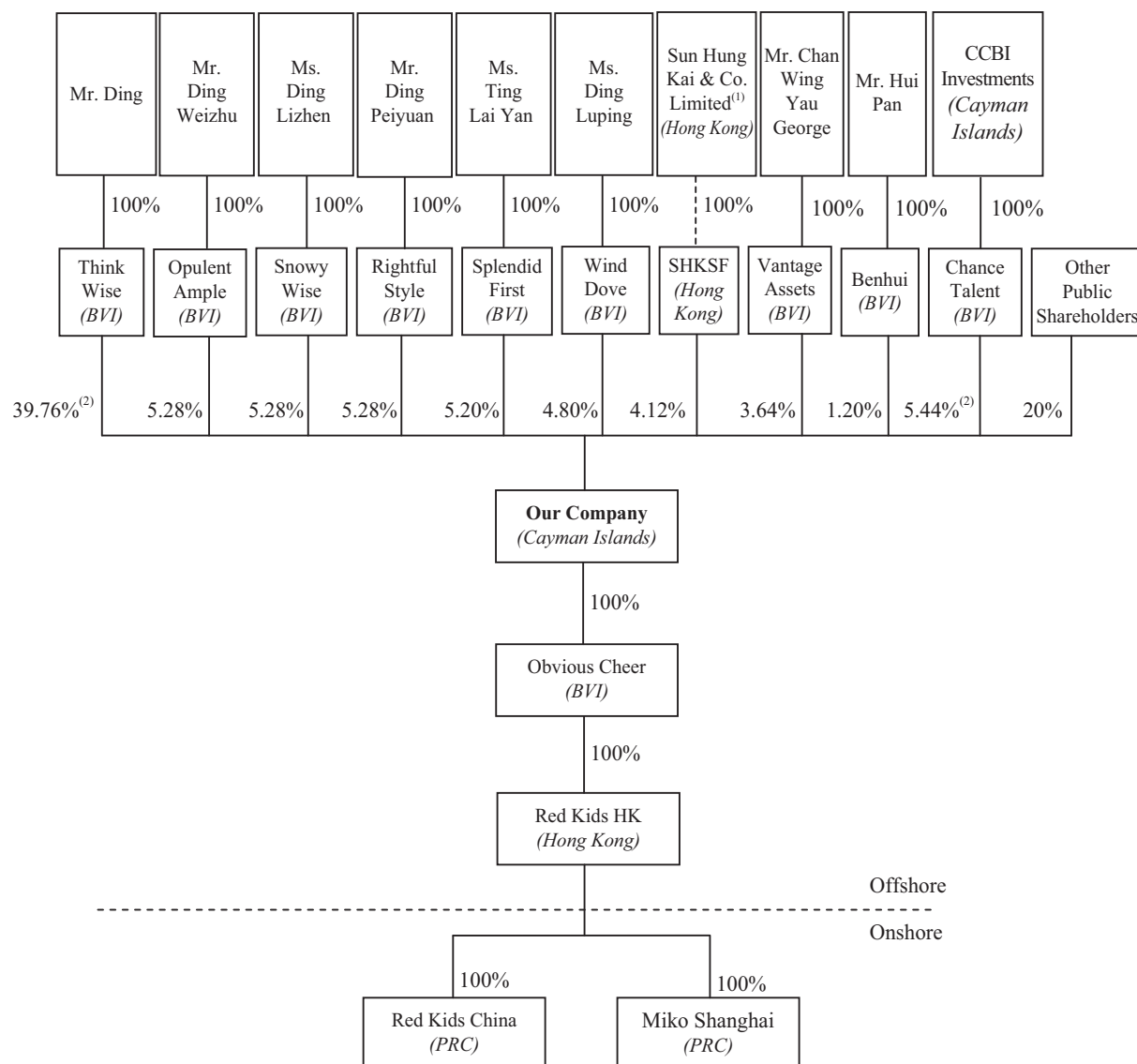
Joint Sponsors' Confirmation

The Joint Sponsors are not aware of any terms of the pre-IPO investments which are not in compliance with Guidance Letters HKEx-GL43-12 and HKEx-GL44-12; the Joint Sponsors are of the view that each of the pre-IPO investments mentioned above are in compliance with the Interim Guidance on Pre-IPO Investments announced by the Listing Committee on October 13, 2010 (as amended) and Guidance Letters HKEx-GL43-12 and HKEx-GL44-12.

HISTORY AND CORPORATE STRUCTURE

GROUP STRUCTURE IMMEDIATELY UPON COMPLETION OF THE GLOBAL OFFERING

The corporate structure of our Group immediately after the Corporate Reorganization, the pre-IPO investments, the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and none of the options granted under the Pre-IPO Share Option Scheme or to be granted under the Share Option Scheme are exercised), on the basis that the Listing will be completed on or before 31 October 2014; and assuming the automatic exercise of exchange rights in respect of 44% of the principal amount of the Exchangeable Notes by Chance Talent upon completion of the Global Offering, is set out below:



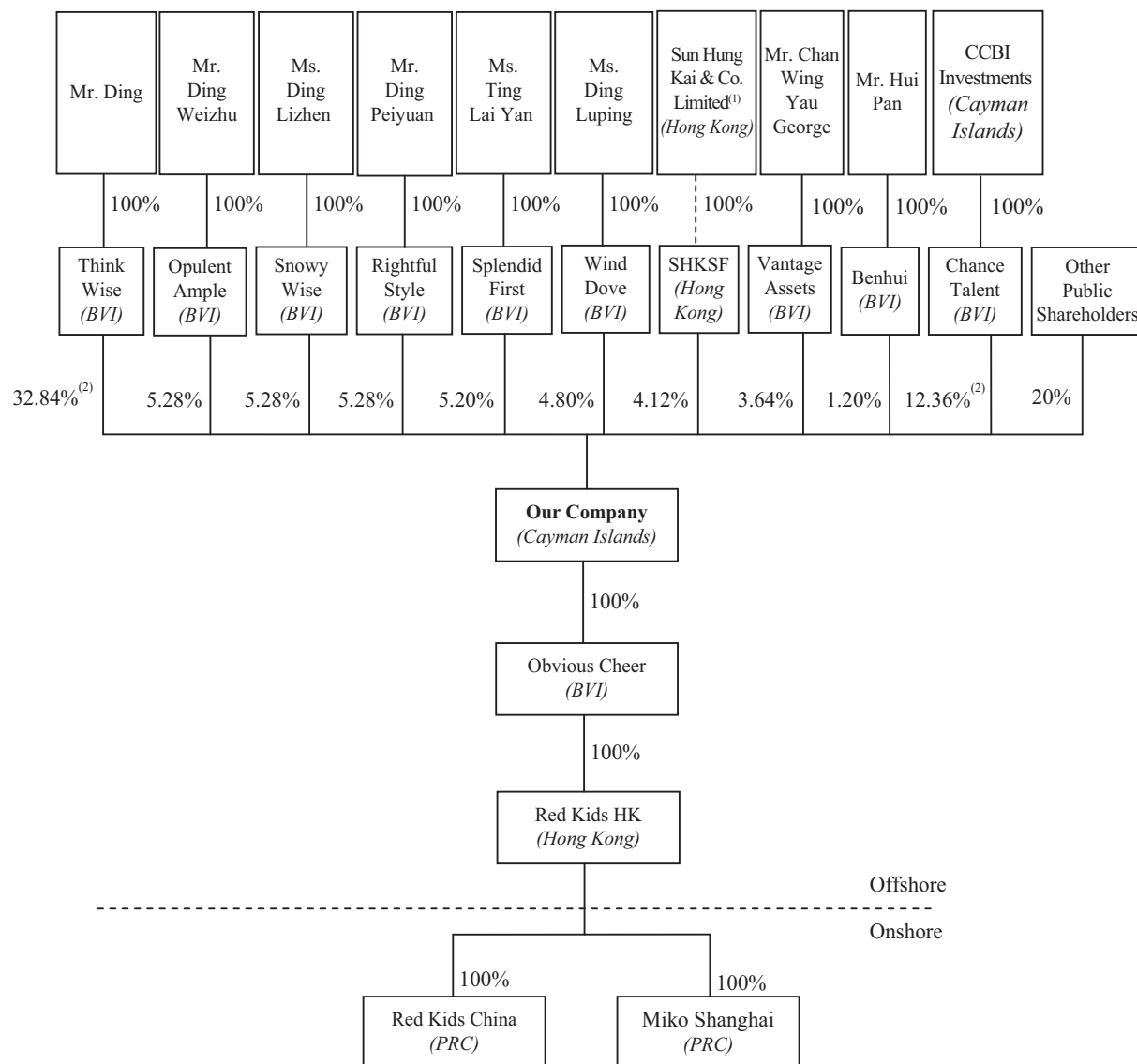
Notes:

- (1) Sun Hung Kai & Co. Limited, a company listed on the Stock Exchange (stock code: 86), indirectly controls 100% interest of SHKSF.
- (2) The number of Shares to be transferred to Chance Talent upon exercise of the exchange rights by Chance Talent under the Exchangeable Notes will vary pursuant to the terms of the Exchangeable Notes. For illustration purposes only, adopting the mid-point of the indicative Offer Price range of HK\$1.96 per Share, Chance Talent will hold approximately 5.44% Shares upon the Listing and correspondingly, Think Wise's interest in our Company will become approximately 39.76% upon the Listing.

HISTORY AND CORPORATE STRUCTURE

GROUP STRUCTURE IMMEDIATELY UPON COMPLETION OF THE GLOBAL OFFERING

The corporate structure of our Group immediately after the Corporate Reorganization, the pre-IPO investments, the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and none of the options granted under the Pre-IPO Share Option Scheme or to be granted under the Share Option Scheme are exercised), on the basis that the Listing will be completed on or before 31 October 2014; and assuming the exchange rights in respect of 100% of the principal amount of the Exchangeable Notes will be exercised by Chance Talent upon completion of the Global Offering, is set out below:



Notes:

- (1) Sun Hung Kai & Co. Limited, a company listed on the Stock Exchange (stock code: 86), indirectly controls 100% interest of SHKSF.
- (2) The number of Shares to be transferred to Chance Talent upon exercise of the exchange rights by Chance Talent under the Exchangeable Notes will vary pursuant to the terms of the Exchangeable Notes. For illustration purposes only, adopting the mid-point of the indicative Offer Price range of HK\$1.96 per Share, Chance Talent will hold approximately 12.36% Shares upon the Listing and correspondingly, Think Wise's interest in our Company will become approximately 32.84% upon the Listing.

HISTORY AND CORPORATE STRUCTURE

SAFE REGISTRATION

SAFE issued Circular No. 75 on October 21, 2005, which requires PRC residents to register with the local SAFE branch before establishing or controlling any company outside of China for the purpose of capital financing with assets or equities of PRC companies, referred to in the Circular No. 75 as special purpose vehicles (“SPVs”). PRC residents who are shareholders of SPVs established before November 1, 2005 were required to register with the local SAFE branch before March 31, 2006. Further, PRC residents are required to file any amendments to their registrations with the local SAFE branch within 30 days after such amendment happens if their SPVs undergo a material event involving changes in capital, such as changes in share capital, mergers and acquisitions, share transfers or exchanges, spin-off transactions or long-term equity or debt investments. On November 19, 2012, SAFE further issued Circular No. 59, effective on December 17, 2012, which further stipulates the procedures of registrations under Circular No. 75, and sets out specific guidelines for the registration, deregistration and supplemental registration procedures for PRC residents engaging in capital financing and round-trip investment via SPVs.

Our PRC legal adviser, Jingtian & Gongcheng, has confirmed that each of Mr. Ding, Mr. Ding Peiyuan, Mr. Ding Weizhu, Ms. Ding Lizhen and Ms. Ding Luping, who are beneficial owners of our Company and PRC residents as defined under Circular No. 75, has completed the foreign exchange registration of overseas investments at the Fujian Bureau of the SAFE on November 12, 2013. As Ms. Ting Lai Yan is a Hong Kong permanent resident, the requirement regarding foreign exchange registration under Circular No. 75 is not applicable to her thus she is not required to complete such registration.

THE RULES ON THE MERGER AND ACQUISITION OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS

On August 8, 2006, six PRC Governmental and regulatory agencies, including the Ministry of Commerce and the CSRC, promulgated the Regulation on the Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (the “M&A Regulation”) which became effective on September 8, 2006 and was revised on June 22, 2009. Pursuant to the M&A Regulation, where a domestic individual person intends to take over his/her related domestic company in the name of an offshore company which he/she lawfully established or controls, the takeover shall be subject to the examination and approval of the Ministry of Commerce; and the M&A Regulation requires an offshore special purpose vehicle formed for overseas listing purposes and controlled directly or indirectly by PRC companies or individuals shall obtain the approval of the CSRC prior to the listing and trading of the securities of such offshore special purpose vehicle on an overseas stock exchange.

Our PRC legal adviser, Jingtian & Gongcheng, has confirmed that since (i) Red Kids China was legally and duly established as a foreign invested enterprise before September 8, 2006, the date from which the M&A Regulation became effective; and (ii) Miko Shanghai was set up by Red Kids HK as a wholly foreign-owned enterprise on June 24, 2013, which did not fall under the definition of takeover under the M&A Regulation; therefore, our Group is not subject to the examination and approval of the Ministry of Commerce, nor the overseas Listing of our Group is subject to the approval of the CSRC, pursuant to the M&A Regulation.

Furthermore, our PRC legal adviser, Jingtian & Gongcheng, has confirmed that we have complied with all applicable PRC rules and regulations and have obtained all relevant approvals from PRC government authorities for the Corporate Reorganization and the Listing.

OVERVIEW

We are a leading mid-to-high end children's apparel brand in China. Our "redkids" brand was ranked second among mid-to-high end children's apparel brands in China based on retail revenue for the year ended December 31, 2012, according to Frost & Sullivan. We accounted for 4.3% of the mid-to-high end children's apparel market in China, and 1.2% of the total children's apparel market in China, both in terms of retail revenue for the year ended December 31, 2012, according to Frost & Sullivan. In addition, the mid-to-high end children's apparel market accounted for 27.0% of the total children's apparel market in China, according to Frost & Sullivan. We believe that our success in building our "redkids" brand is attributable to our ability to produce high-quality, functional and comfortable products that reflect the latest market trends. In 2013, we were awarded the "Top Ten Brands for Children's Apparel in China" (中國十大童裝品牌) issued by the China National Garment Association (中國服裝協會), an organization of designers, brand owners and manufacturers in the apparel industry in China.

We sell substantially all of our products on a wholesale basis to our distributors. Our distributors in turn sell our products either to end customers at retail outlets operated by them or their sub-distributors, or through online sales platforms. We also manufactured children's apparel for domestic and international brands on an OEM basis during the Track Record Period. As of June 30, 2013, our distributors and their sub-distributors had established a total of 582 retail outlets for our branded products including 62 shopping mall outlets, 308 street shops and 212 department store concessions located across 24 provinces and municipalities in China. The continual expansion of our network of retail outlets during the Track Record Period has established the presence of our brand nationwide. We plan to gradually increase the number of our self-operated retail outlets, which we intend to use as model stores to enhance our brand recognition, demonstrate our standards for store appearance and provide guidance to distributors in brand promotion and retail management. We expect to open no more than 50 self-operated retail outlets by end of 2014. As of Latest Practicable Date, we have one designated online distributor, Red Kids E-commerce, which purchases products from us on a wholesale basis before selling them to end customers through online sales platforms such as Taobao, VIPShop and V+. Our sales to Red Kids E-commerce increased significantly from RMB0.8 million for the year ended December 31, 2010 to RMB29.8 million for the year ended December 31, 2011 and further to RMB87.8 million for the year ended December 31, 2012, and our sales to Red Kids E-commerce increased from RMB24.5 million for the six months ended June 30, 2012 to RMB37.1 million for the six months ended June 30, 2013. For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our sales to Red Kids E-commerce, represented 0.2%, 7.6%, 16.9% and 14.7% of our total turnover.

Our strong capabilities in design, research and development enable us to quickly respond to market developments and change of consumer preferences. Our product design and research and development team comprises experienced designers who are familiar with different consumer preferences in the China market. Their sensitivity to international fashion trends coupled with their insights into consumer preferences have helped us develop our brand recognition and expand our customer base. Our design and research and development team gathers information on latest market trends and consumer preferences through various sources, including market research, international fashion shows as well as discussions with our major distributors and our OEMs. In addition, our design and research and development team coordinates closely with our raw material suppliers, production team and OEMs throughout our product design process to ensure the production viability of our products. For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2012 and 2013, we offered approximately 328, 385, 552, 223

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and 368 new SKUs under our “redkids” brand, respectively. In 2011, we received the “China Color Application Award” (中國色彩應用獎) and were accredited as “The Top Fashion Children’s Apparel Brand of China” (年度最具流行魅力童裝品牌) by the China Fashion & Color Association (中國流行色協會). In 2010, we were accredited as a “China Fashionable Product Release Base for Children’s Garments” (中國童裝時尚新品發佈基地) by the China Fashion & Color Association (中國流行色協會).

We manufactured a portion of our products at our production facility in Quanzhou, Fujian Province and outsourced the remaining to OEMs during the Track Record Period. For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, the proportion of our products that were manufactured by our OEMs continued to increase, accounting for approximately 14.6%, 40.2%, 50.1% and 68.1% of our total cost of sales, respectively. All of our OEMs are Independent Third Parties, and our major OEMs are enterprises experienced in the production of apparel. We have adopted a stringent quality control policy to maintain the quality of our products. In 2013, we were recognized as an “Excellent Enterprise for Trustworthy Quality in China” (全國質量誠信優秀企業) issued by the China Quality Inspection Association (中國質量檢驗協會). We intend to continue to increase the proportion of outsourced production to OEMs so that we can focus our resources and management’s attention on certain stages in our production life cycle that we believe contribute more value to our business, such as product development, brand promotion, channel management and sales and marketing. We utilize our production know-how, accumulated through our years of experience as an OEM service provider to international apparel brands, to identify and collaborate with qualified OEMs and raw material suppliers. Furthermore, we seek to identify OEMs and raw material suppliers in different regions that are cost-effective and with whom we can collaborate on the product design and research and development.

We have achieved significant growth in turnover and net profit in recent years. Our turnover increased from RMB327.0 million for the year ended December 31, 2010 to RMB392.4 million for the year ended December 31, 2011 to RMB520.0 million for the year ended December 31, 2012, and our turnover increased from RMB176.5 million for the six months ended June 30, 2012 to RMB253.2 million for the six months ended June 30, 2013. Our profit for the year increased from RMB75.9 million for the year ended December 31, 2010 to RMB77.3 million for the year ended December 31, 2011 to RMB115.4 million for the year ended December 31, 2012, and our profit increased from RMB33.8 million for the six months ended June 30, 2012 to RMB42.2 million for the six months ended June 30, 2013.

OUR COMPETITIVE STRENGTHS

We believe that our success and potential for future growth are attributable to the following competitive strengths:

We are a leading mid-to-high end children’s apparel brand in China and well-positioned to capture opportunities in China’s fast-growing children’s apparel market

We are a leading mid-to-high end children’s apparel brand in China. Our “redkids” brand is ranked second among mid-to-high end children’s apparel brands in China based on retail revenue for the year ended December 31, 2012, according to Frost & Sullivan. We believe that our success in building our “redkids” brand is attributable to our ability to produce high-quality, functional and comfortable products that reflect the latest market trends. We have received a number of awards and recognitions for our brand. In 2013, we were recognized by the China National

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Garment Association (中國服裝協會), an organization of designers, brand owners and manufacturers in the apparel industry in China, as one of the “Top Ten Brands for Children’s Apparel in China” (中國十大童裝品牌). In the same year, we were also recognized as an “Excellent Enterprise for Trustworthy Quality in China” (全國質量誠信優秀企業) issued by the China Quality Inspection Association (中國質量檢驗協會). In 2009, our “redkids” brand was accredited as a “Fujian Province Famous Brand” (福建省著名商標) by the Administration for Industry and Commerce of Fujian Province (福建省工商行政管理局).

We operate in a fast-growing and highly fragmented industry. The PRC has experienced significant economic growth in recent years. Economic growth in the PRC contributes to increases in disposable income and consumer spending among its population, which, in turn, drive demand for consumer products according to Frost & Sullivan. The average annual Chinese household’s disposable income is expected to increase to RMB46,814 in 2017, representing a CAGR of 13.8% from 2012 to 2017. According to Frost & Sullivan, the per capita annual expenditure on children’s apparel in the PRC grew at a CAGR of 20.5% between 2008 and 2012 and is expected to continue to increase from RMB740.30 in 2012 to RMB1,658.90 in 2017, representing a CAGR of 17.5% for the period from 2012 to 2017. In addition, according to the National Bureau of Statistics of China, the PRC had over 250 million children under 14 years of age in 2012, representing the world’s second largest children’s consumer group. According to Frost & Sullivan, the number of urban Chinese children will likely continue to grow as a new policy will allow married couples to have a second child if either of the parent is an only child. Previously, only parents that are both the only child of their respective families were permitted to have a second child. In addition, we believe the increase in disposable income of PRC urban households and the growth in PRC urban children’s population are likely to continue to drive the growth of its children’s apparel market. Moreover, we believe that as parents in the PRC become more affluent, they will be more willing to pay for high-quality children’s apparel.

We believe that our brand reputation and extensive distribution network will enable us to further expand our customer base and capture opportunities in this favorable market.

We have an established distribution network with strategic geographical coverage

As of June 30, 2013, our retail network covered 24 provinces and municipalities in China. The continual expansion of our retail network during the Track Record Period has established wide geographic coverage of our products and broadened our customer base. We strategically prioritized establishing street shops under our “redkids” brand in third- and fourth-tier cities in China where the market size of children’s apparel has been growing rapidly, according to Frost & Sullivan. Given the large consumer base, the growth in consumer spending and relatively weaker competition from other international or top-end Chinese children’s apparel brands, retail outlets under our brand in third- and fourth-tier cities are our most established sales channels and major contributors to our revenue.

We have a nationwide distribution network. We work together with our distributors on new retail outlet openings and we have implemented sales management guidelines to manage our distributors and their sub-distributors as well as retail outlets operated by them. Our prior approval is required for the selection of the location and the design and decoration of each retail outlet. We require the layout and appearance of the retail outlets reflect our brand image and culture consistently. We initiate pre-sales discussions with our distributors prior to our sales fairs and arrange follow up reviews to ensure that their purchase orders placed during the sales fairs are reasonable and in line with the relevant distributor’s capacity and growth. We monitor the sales performance and inventory level of our major distributors, including our top ten distributors

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measured by sales revenue during the Track Record Period, and their sub-distributors through monthly visits to retail outlets operated by them and by requiring our major distributors to submit monthly inventory reports. For our other distributors and their sub-distributors, we conduct the same procedures on a quarterly basis and we require the distributors to submit quarterly inventory reports. The retail outlets we visit are selected randomly to avoid any potential bias and to enhance the accuracy of the sales and inventory data collected. We also conduct spot checks and physical stock counts on the inventory level of our distributors. In addition, we regularly communicate with the management of department stores on the sales performance of the department store concessions under our “redkids” brand to confirm our sales data for such distributors. Our distributors and their sub-distributors are not permitted to sell other children’s products that directly compete with our products within the same retail outlet they operate. We believe that our centralized management control over our retail network helps to ensure that our brand concepts are reflected and our sales and promotion strategies are executed at the retail level in a consistent manner nationwide.

Our diversified sales platform enables us to serve a broad customer base and to meet growing and different customer demands

We have a diversified sales platform which enables us to cater various consumption habits of children’s apparel consumers in different regions in China. We sell substantially all of our products on a wholesale basis to our distributors, who in turn sell our products through shopping mall outlets, department store concessions and street shops operated by them or their sub-distributors. Shopping mall outlets under our brand typically have relatively large display areas that allow us to introduce a wide range of products and to carry out marketing activities. Department store concessions under our brand are generally located in prime commercial locations in first- and second-tier cities, which attract large volumes of end customers, allow for effective brand advertising and increase brand exposure to a broader customer base. Street shops under our brand are individual stores generally located in prime commercial areas of third- and fourth-tier cities, which are our main customer base. In addition, to capture the significant market potential for the sales of children’s products through online sales platforms, we have authorized an online distributor, Red Kids E-commerce, since 2010 to sell our products online. Based on the consumer preference data we gather from the online distributor, we design products with distinct styles that target the online consumer group, in particular younger parents. Our sales to Red Kids E-commerce increased significantly from RMB0.8 million for the year ended December 31, 2010 to RMB29.8 million for the year ended December 31, 2011 and further to RMB87.8 million for the year ended December 31, 2012, and our sales to Red Kids E-commerce increased from RMB24.5 million for the six months ended June 30, 2012 to RMB37.1 million for the six months ended June 30, 2013. For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our sales to Red Kids E-commerce represented 0.2%, 7.6%, 16.9% and 14.7% of our turnover. As evidenced by the significant increase in sales through our online distributor, we believe we have successfully captured the preferences of the target online consumers. Furthermore, we believe that through our diversified sales platform of retail outlets and online sales, our “redkids” brand not only covers a broad customer base in our target markets, but also meets different customer needs.

Our strong capabilities in design and product development enable us to respond to changing market trends in a timely manner

We have strong capabilities in design and product development, which enable us to quickly respond to market developments and change of consumer preferences. Our design and research and

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development team comprises 20 designers located in our Shanghai design center, who are familiar with the different consumer preferences in the Chinese market. Their sensitivity to international fashion trends coupled with their insights into consumer preferences has helped us build brand recognition and expand our customer base. We gather information on latest market trends and consumer preferences through market research, sales fairs, experiences from working with international children's apparel brands and attending international fashion shows as well as international fabric shows. Our design and research and development team also collaborates with the China Fashion & Color Association (中國流行色協會) on the research and application of colors in children's apparel and accessories. In addition, we involve our major distributors in our product design and development process to take advantage of their knowledge of market trends and consumer preferences, which helps ensure that our products cater to the latest consumer trends and preferences in children's apparel and accessories. For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2012 and 2013, we introduced 328, 385, 552, 223 and 368 SKUs, respectively. We believe our design and research and development team has a proven track record and possesses the requisite expertise and experience to identify and respond to children's apparel trends in China. In 2011 we received the "China Color Application Award" (中國色彩應用獎) and were accredited as "The Top Children's Apparel Brand of China" (年度最具流行魅力童裝品牌) by the China Fashion & Color Association (中國流行色協會). In 2010, we were accredited as a "China Fashionable Product Release Base for Children's Garments" (中國童裝時尚新品發佈基地) by the China Fashion & Color Association (中國流行色協會).

Our design and research and development team coordinates closely with our raw material suppliers, production team and OEMs during our design and production process. Commencing at the initial stages of our product design process, we seek feedback on the production viability of our products from our raw material suppliers, production team and OEMs. In addition, we continue to engage them prior to finalizing our seasonal collection to ensure that our products may be produced economically. We believe that as a result of our efforts, we have been able to transform product concepts into commercially viable products efficiently and effectively. Furthermore, by leveraging on our industry knowledge and experiences and close relationships with our raw material suppliers and OEMs, we will be able to continue to swiftly respond to market changes, which in turn will enable us to remain competitive in the fast-paced children's apparel industry.

We have a stable and experienced management team with a proven track record

Our management team is led by our founder and chairman, Mr. Ding (丁培基). Mr. Ding has over thirteen years of experience in the children's apparel retail industry. Our general manager, Mr. Ding Peiyuan (丁培源), has over eight years of experience in the children's apparel retail industry. Mr. Ding, Mr. Ding Peiyuan and one of our two deputy general managers, Ms. Ding Lizhen (丁麗真), a sister of Mr. Ding and Mr. Ding Peiyuan, have all been with our Company for over eight years. Our other deputy general manager, Mr. Gu Jishi (顧及時), also has approximately ten years of experience in the apparel and retail industry. Our senior management team also includes our design director, Ms. Chong Pui Shan (莊佩珊), who has over ten years of experience in the apparel industry. Members of our senior management team possess in-depth industry experience and expertise in various areas of the children's product industry, including sales, marketing, brand management, research and development and production.

Our management team has demonstrated strong execution capabilities, successfully established our brand and expanded our distribution network to cover 24 provinces and municipalities in China as of June 30, 2013.

OUR BUSINESS STRATEGIES

We intend to further strengthen our position as a leading mid-to-high end children's apparel in China. We plan to achieve our goals by pursuing the following principal strategies:

Establish self-operated retail outlets and continue to expand our distribution network

We intend to establish and gradually increase the proportion of our self-operated retail outlets in prime locations of selected regions which we believe have sales growth potential and are not currently covered by our distributors. We currently expect to establish no more than 50 self-operated retail outlets by the end of 2014. We intend to use our self-operated retail outlets as model stores to enhance our brand recognition, demonstrate our standards for store appearance and provide guidance to our distributors in brand promotion and retail management. In addition, through our self-operated retail outlets, we will be able to gain first-hand feedback from end customers regarding their preferences, which we may utilize for enhancing our product design and for building a better shopping experience for customers so as to improve our brand image.

We also intend to develop our VIP customer program through the self-operated retail outlets. Currently, we do not have a unified VIP customer program. It is at the discretion of our distributors to decide whether to establish a VIP program for their retail outlets and set out the specific terms and conditions under the program. We intend to establish a centralized VIP customer program first at our self-operated retail outlets and to gradually expand it to cover all retail outlets for our products. We believe such a unified VIP customer program would help to increase customer loyalty, allow us to better understand customer preferences and enhance our marketing plans.

In addition, we plan to work with our distributors to expand our retail network to new markets and increase our penetration in existing markets. We believe that it is important to continue to expand the retail coverage of our products to capture the growth potential in third- and fourth-tier cities, while developing our brand recognition in the first- and second-tier cities. We intend to work with distributors to expand our retail network and determine the number, type and location of new retail outlets to be opened. We intend to closely manage such sales channels to ensure that service and appearance are consistent across all stores.

Further promote our “redkids” brand and enhance our marketing and promotional strategies

We intend to continue to improve our brand awareness by delivering a consistent brand image from product design to sales and marketing. Our marketing, sales and promotion initiatives include enhancement of the image of retail outlets under our brand, in-store marketing and promotions and online advertising. We intend to continue such marketing strategies in the future. In addition, in our self-operated retail outlets, we intend to place children's play clothes around children's play areas to induce parents to purchase those items. In addition to promoting our “redkids” brand through our self-operated retail outlets, we plan to hold events that include more interactive activities with our target customers, including seminars on how to select children's apparel and events where parents participate in the seasonal product evaluations. Furthermore, we plan to promote our “redkids” brand through new media, such as micro-blogs. We also intend to selectively increase our television and outdoor commercials in target markets and to participate in children's apparel exhibitions that target our customer base. Furthermore, we intend to strengthen our customer loyalty and expand our

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customer base by managing and further cultivating our interaction with end consumers through enhanced customer service and support, which we intend to accomplish by creating a nationwide customer service hotline to address customer needs and increase their satisfaction.

Continue to develop online sales

We believe there is significant market potential for the sales of children's products through online platforms and we intend to continue to capture opportunities in this growing market. During the Track Record Period, sales to our designated online distributor, Red Kids E-commerce, increased significantly from RMB0.8 million in 2010 to RMB87.8 million in 2012. We intend to continue to expand online sales through collaboration with our online distributor, Red Kids E-commerce. In addition, we plan to continue to introduce products that specifically target the online consumer group, such as younger parents. We believe these products, which are tailored to the preferences of the online consumer group, are likely to help us attract new customers and broaden our customer base. We face intense competition in the fast-paced online children's retail market. In order to remain competitive in this market, we need to frequently introduce new products to attract the attention of our target customers. To support the development of online sales, we also plan to continue to identify and establish relationships with OEMs that can efficiently supply our orders and help reduce our online products' time-to-market.

Furthermore, we plan to use our self-operated retail outlets to support the development of our online sales. We intend to showcase certain products at our self-operated retail outlets so that potential customers can experience these products physically before purchasing them online. We believe this option would help online customers gain a better understanding of our product quality and brand culture and, as a result, would help increase the online sales of our products.

Implement management information systems to manage our operations more effectively

As we expand our retail network and increase the scale of our operations, we intend to install an ERP system to enhance our overall management in sales, inventory, financial management, production and logistics. We believe that the ERP system will enable us to improve the overall efficiency of our operations by allowing us to centrally monitor the sales and inventory data in our retail network in real time. The fully integrated ERP system will minimize our production and logistical bottlenecks and allow our merchandising and inventories to keep pace with our expanding network of retail outlets. We plan to install the ERP system at all our self-operated retail outlets first and gradually require our distributors and sub-distributors to install the ERP system at their retail outlets and to upload management data relating to sales and inventory on a real time basis. The costs associated with the installation of the ERP system will be incurred by us. We believe that the ERP system will facilitate the day-to-day operations of our distributors and help strengthen the management of our distribution network, which in turn will help the growth of our Company by enabling us to record sales details, monitor our SKUs, track our inventories and analyze our customers' purchase habits in a more effective manner. This operating data will in turn allow us to more effectively market to our target customers. We also believe that implementing the ERP system would help facilitate the exchange of information between ourselves and our distributors, strengthen our supply chain management and our sales and marketing, support our decision process in product design and development, further enhance our ability to implement our operating guidelines and better formulate our growth plans in a feasible manner.

Further strengthen our design and research and development capabilities

We believe that strong design and research and development capabilities are critical to our future development and sustainable growth as competition within China's children's apparel market intensifies. We intend to further strengthen our design and research and development capabilities to maintain and enhance our position as a leading brand in the mid-to-high end children's apparel market in China. We have established a research and development center in Shanghai, through which we plan to recruit and hire more designers with experience working for international children's apparel brands who are both sensitive to global trends and familiar with consumer preferences in the Chinese market. In addition, we aim to hire individuals who are knowledgeable about the development and production process of particular categories of children's apparel and professional buyers who are experienced in sourcing high-quality finished products. Furthermore, to enhance creativity in the design and development of our products, we plan to purchase new equipment that can further enhance our design process, collaborate with international design institutes, engage third-party design studios and continue to provide extensive training to our designers. We also intend to continue to collaborate with the China Fashion & Color Association (中國流行色協會) on the research and application of colors in children's apparel.

We seek to further enhance our collection of market information through various online resources, including the online sales data of our products. Through timely collection and analysis of such market information and collaboration with the China Fashion & Color Association (中國流行色協會), we expect to improve our current products and to design and market new products that better cater to consumer needs while at the same time reflecting our brand culture and leading market trends.

Continue to expand our product offerings and pursue strategic alliances and acquisitions

We intend to further diversify and expand our product portfolios, including children's footwear and accessories, in order to increase our coverage of the PRC children's apparel market. In addition, we plan to continue to focus on developing clothing of superior quality and comfort, which incorporate natural, eco-friendly fabrics. Furthermore, we commenced our search for OEMs that can help us in developing children's products that complement our current product mix during the first half of 2013.

We also plan to increase our portfolio of brands through strategic acquisitions or alliances that we believe will create synergy for our existing "redkids" brand. Specifically, we will consider the acquisition of, or strategic alliance with other international children's apparel brands that complement our existing product portfolio. We believe that pursuing these selective acquisitions or strategic alliances will help increase our brand awareness, expand our distribution network in prime commercial locations, enlarge our customer base, enhance our competitiveness and further solidify our market position. We will carefully consider and evaluate each potential acquisition and alliance on the basis of its merits to ensure that our existing business platform will derive the appropriate benefits. Currently, we do not have any specific acquisition or alliance targets.

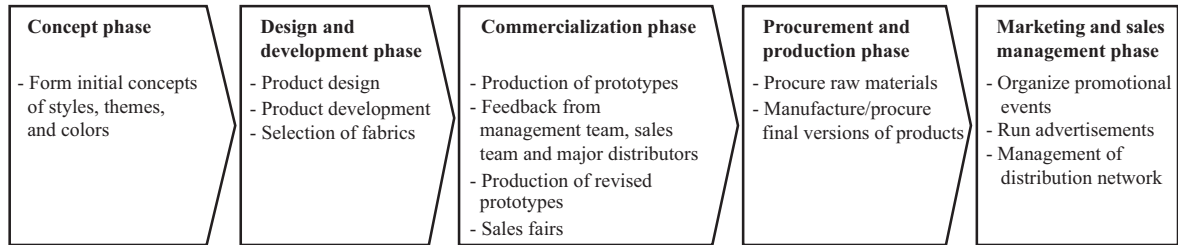
OUR BUSINESS MODEL

We primarily design, manufacture, market and sell children's apparel under our "redkids" brand. In addition, we also manufacture children's apparel for domestic and international brands on an OEM basis. For the three years ended December 31, 2010, 2011 and 2012 and the six months

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ended June 30, 2013, sales of children's apparel, footwear and accessories contributed to 95.7%, 97.6%, 99.5% and 99.7% of our revenue, and OEM services contributed to 4.3%, 2.4%, 0.5% and 0.3% of our revenue, respectively.

The following diagram illustrates our business model:



We manage and operate our “redkids” brand through a cycle of concept phase, design and development phase, commercialization phase, procurement and production phase, and marketing and sales management phase:

- *Concept phase*, where we determine the main themes of our seasonal collection in consultation with our major distributors, sales team, raw material suppliers, OEMs and customers and in reference to other external sources, such as international and local fashion shows;
- *Design and development phase*, where our design and research and development team develops our seasonal collection and collaborates with our raw material suppliers and OEMs on fabric selection and sample creation;
- *Commercialization phase*, where samples of the seasonal collection are created in collaboration with our raw material suppliers and OEMs, feedback is solicited from our senior management team, sales team and major distributors, necessary revisions are made and sales orders are finalized during sales fairs;
- *Procurement and production phase*, where we procure raw materials, manufacture and contract with OEMs and raw material suppliers to manufacture the final versions of our seasonal collection; and
- *Marketing and sales management phase*, where we organize marketing and promotional events for our seasonal collection, sell our products on a wholesale basis to our distributors and manage our distribution network.

BRAND AND PRODUCTS

We offer a wide range of children's apparel and accessories under our “redkids” brand primarily for children from 3 to 12 years of age. We believe that brand recognition is important to our success as a children's apparel brand. We believe that our success is attributable to our ability produce high-quality, functional and comfortable products that reflect the latest market trends and our ability to distinguish ourselves from our competitors by our product quality, distinctive designs and brand identity.

For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2012 and 2013, we offered a total of approximately 328, 385, 552, 223 and 368 new SKUs

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under our “redkids” brand, respectively. Our “redkids” brand features a variety of seasonal apparel and accessory items designed to appeal to the brand’s targeted consumer group. Products offered under our brand include:

- Apparel: T-shirts, shirts, tank tops, coats, pants, jeans, shorts, sweaters, down jackets; and
- Accessories: socks, underwear, gloves.

The following are sample photos of our apparel products:



DESIGN AND RESEARCH AND DEVELOPMENT

We have strong in-house design and research and development capabilities, which are essential to our business, as they establish the key concepts and identity for our brand and products. We design our children’s apparel and accessory products under our “redkids” brand and launch two seasonal collections annually. We have a dedicated design and research and development team that possesses an in-depth understanding of our brand concepts and are familiar with the preferences of our target consumer base. As a result, we are able to design products that meet evolving market demands while maintaining our consistent brand identity.

Our design and research and development team is primarily responsible for market research, product design and development. In addition, our design and research and development team also collaborates with our procurement, production and quality control personnel to help ensure that our products can be produced at our desired quality standards in a cost-efficient manner. We control our design and research and development expenses by requiring members of the design and research and development team to obtain approval from their manager and our management team prior to incurring research and development expenses. Such approvals are generally granted based on previously agreed seasonal and annual budgets for design and research and development. As of

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June 30, 2013, our design and research and development team consisted of a total of 20 employees, all located at our Shanghai design center. Our design and research and development team is led by our design director, Ms. Chong Pui Shan (莊佩珊). Ms. Chong has over ten years of experience in the fashion industry and has experience collaborating with international brands.

Market research

Our design and research and development process typically begins by identifying fashion trends, market demands and consumer preferences. We gather information on the latest fashion trends through international and local industry updates relating to children's apparel, feedback from our distributors and our sales and marketing personnel on the sales performance of products, our experience working with international brands to whom we provide OEM services and attending international fashion shows as well as international fabric shows. We have entered into a strategic alliance with the China Fashion & Color Association (中國流行色協會) and have been collaborating with them for over 3 years on the research and application of colors in children's products. We regularly receive color scheme recommendations from the China Fashion & Color Association (中國流行色協會), which our designers often use as a reference during the initial stages of our design process.

Product design and development

Our designers first determine the themes and color elements for each of our seasonal collections. Afterwards, they prepare drawings and sketches of the products and work together with our production team, raw material suppliers and OEMs to determine the technical specifications for the products and the raw materials to be used. In addition, we involve certain of our major distributors and sales and marketing personnel at this stage to gauge the potential market acceptance of our sample products, which helps to ensure that our products cater to the latest consumer trends and preferences in children's apparel and accessories. Our design and research and development team then selects those designs which they perceive to have better commercial viability and marketability and modifies the designs according to the feedback collected during consultation. Furthermore, we also develop products that are distinctively designed and specifically offered by our online distributor in order to cater to the preferences of our online customers. We believe that these distinctly styled products help to attract the attention of new customer groups and to enlarge our customer base.

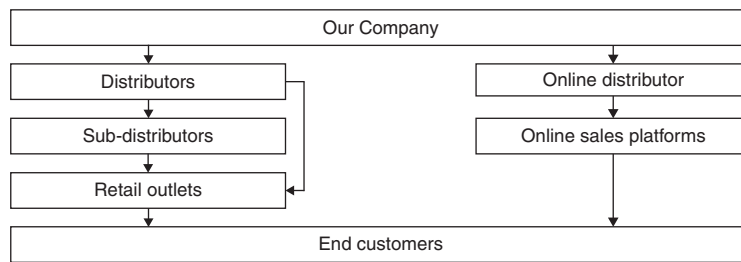
Sample creation

After the design and development phase is completed, we make part of our initial apparel samples at our own production facilities and collaborate with our OEMs to produce the rest in order to analyze procurement and production costs. We work to ensure that the samples adhere to our original design concepts and can be commercially produced in a cost-effective way. By creating product samples, we introduce the technical specifications of our new products, including raw materials specified by us, production steps, quality standards and delivery requirements, to our raw material suppliers, production team and OEMs. Our raw material suppliers, production team and OEMs then provide feedback on production aspects such as technical specifications, risk control with respect to production, projected costs and delivery terms. After we have made necessary adjustments based on the feedback, we further liaise with our production team and OEMs to produce finalized product samples for use in our sales fairs.

SALES AND DISTRIBUTION**Overview**

We sell substantially all our products on a wholesale basis at approximately 35% of the suggested retail price to our distributors, who in turn sell the products to end customers or resell the products to their sub-distributors or through online sales platforms. Our distributors resell the products to their sub-distributors at a markup of approximately 10% to 20% to the wholesale price. We believe that our distributorship business model, which allows us to allocate more resources to our core competitive strengths, such as product design and development and brand management, is commonly adopted by brand owners in the retail industry in China and enables us to expand our distribution network to a wide geographical area by leveraging the local market knowledge of our distributors and/or their sub-distributors. We recognize revenue upon delivery of our products to our distributors.

The following chart illustrates our current distribution model:

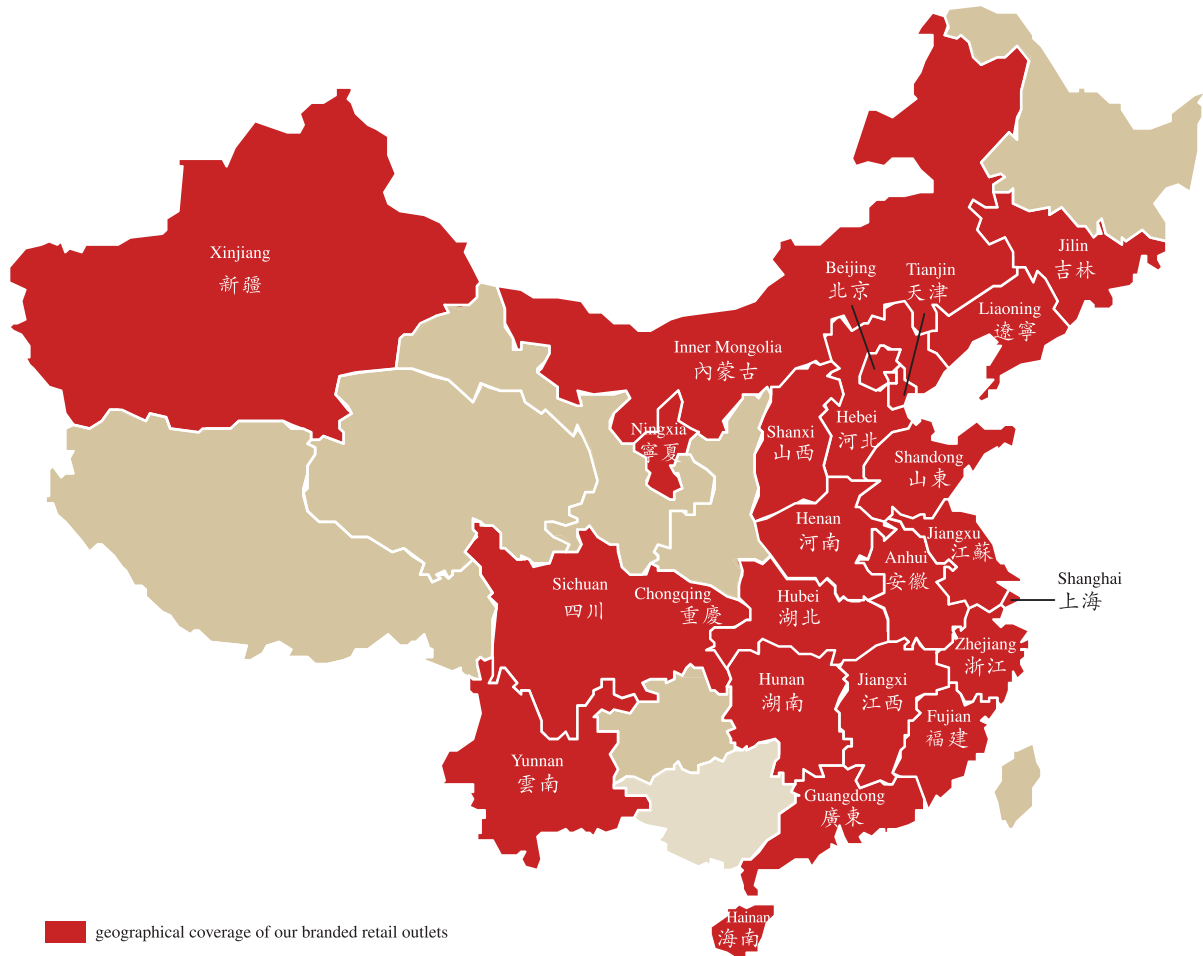


Our distributors and their sub-distributors have established an extensive retail network for our products, covering 24 provinces and municipalities in China as of June 30, 2013. Our brand has strong recognition and appearance in third- and fourth-tier cities, which have achieved substantial economic growth in recent years. Moreover, the ongoing urbanization and increasing purchasing power of consumers in these cities have led to increases in both children’s apparel market size and demand for mid-to-high end children’s apparel. In addition, according to Frost & Sullivan, since international and high-end domestic children’s apparel brands have a considerably lower level of market presence in third- and fourth-tier cities, we believe we face less competition there as compared to first- and second-tier cities. We believe these favorable market conditions have allowed us to continue to enhance the recognition of our “redkids” brand and contributed to the fast growth of our target customer base.

We plan to establish and gradually increase the proportion of our self-operated retail outlets in prime locations of selected regions which we believe have high sales growth potential. We intend to use our self-operated retail outlets as model stores to enhance our brand recognition, demonstrate our standards for store appearance and provide guidance to distributors in brand promotion and retail management. Furthermore, we believe that self-operated retail outlets will enable us to have direct contact with our target customers, thereby allowing us to tailor our marketing efforts to them and to directly instill in them our brand image and culture. In our self-operated retail outlets, we intend to place children’s play clothes at various designated children’s play areas to increase the attractiveness of our products and to induce parents to purchase those items. We believe that self-operated retail outlets will allow us to provide high-quality services to our end consumers in a consistent manner and to obtain first-hand feedback from them, which in turn will provide us with useful information for our future product designs.

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Our distributors and their sub-distributors are only authorized to sell our products at our branded retail outlets. As of June 30, 2013, in our distribution network, there were a total of 582 retail outlets, which comprised 62 shopping mall outlets, 308 street shops and 212 department store concessions. Our distributors and their sub-distributors own and operate these retail outlets, and we do not have any ownership in or contractual relationship with the retail outlets operated by them. We generally require our distributors and their sub-distributors to seek to open street shops in prime commercial areas with high pedestrian traffic in third- and fourth-tier cities and concessions in large and well-known department stores. Our branded retail outlets in prime locations allows us to meet the demands of our targeted end consumer group. The following chart illustrates our current distribution map:



Our Distribution Network

Overview

As of June 30, 2013, we had 24 distributors who, together with their sub-distributors, operated a total of 582 retail outlets, including 62 shopping mall outlets, 308 street shops and 212 department store concessions.

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The following table sets forth the number of our branded retail outlets opened and closed during the periods indicated. The increase in the number of retail outlets was primarily due to our strategic plan to expand our distribution network to cover a wider geographical area and increase our market penetration. The closings of retail outlets in 2010 were primarily due to their unsatisfactory sales performance and the termination of a number of sub-distributors that were relatively small in size. The closings of retail outlets in 2011 resulted from the termination of certain distributors and sub-distributors, which were relatively small in size or did not possess or were not willing to invest the necessary resources to continue to open and manage retail outlets to further develop the “redkids” brand. The closings of retail outlets in 2012 and the six months ended June 30, 2013 were primarily a result of some of the distributors’ or sub-distributors’ decision not to renew the lease agreements of their retail outlets because of increases in rental expenses, unsatisfactory sales performance at certain locations or better locations becoming available.

	As of/For the year ended December 31,									As of/For the six months ended June 30,					
	2009			2010			2011			2012			2013		
	Total	Opened	Closed	Total	Opened	Closed	Total	Opened	Closed	Total	Opened	Closed	Total		
Number of retail outlets	330	231	85	476	177	93	560	82	48	594	20	32	582		

The following table sets forth the number of retail outlets opened and closed by our distributors during the periods indicated:

	As of/For the year ended December 31,									As of/For the six months ended June 30,					
	2009			2010			2011			2012			2013		
	Total	Opened	Closed	Total	Opened	Closed	Total	Opened	Closed	Total	Opened	Closed	Total		
Number of retail outlets operated by our distributors	134	117	30	221	94	57	258	32	30	260	7	26	241		

The following table sets forth the number of retail outlets opened and closed by the sub-distributors engaged by our distributors during the periods indicated:

	As of/For the year ended December 31,									As of/For the six months ended June 30,					
	2009			2010			2011			2012			2013		
	Total	Opened	Closed	Total	Opened	Closed	Total	Opened	Closed	Total	Opened	Closed	Total		
Number of retail outlets operated by sub-distributors	196	114	55	255	83	36	302	50	18	334	13	6	341		

The following table sets forth the number of retail outlets for our products in China by city type as of the dates indicated:

City Type	As of			
	December 31,			June 30,
	2010	2011	2012	2013
Tier 1	56	62	67	68
Tier 2	85	93	109	104
Tier 3	105	146	167	165
Tier 4	230	259	251	245
Total	476	560	594	582

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The following table sets forth a breakdown of our branded retail outlets by distribution channel as of the dates indicated:

	As of			
	December 31,			June 30,
	2010	2011	2012	2013
Shopping mall outlets	30	47	54	62
Street shops	267	321	326	308
Department store concessions	179	192	214	212
Total	<u>476</u>	<u>560</u>	<u>594</u>	<u>582</u>

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

	As of/For the year ended December 31,									As of/For the six months ended June 30,					
	2009			2010			2011			2012			2013		
	Total	Appointed	Terminated	Total	Appointed	Terminated	Total	Appointed	Terminated	Total	Appointed	Terminated	Total		
Distributors ⁽¹⁾ ..	25	1	—	26	14	13	27	1	4	24	—	—	24		

Note:

1. "Distributors" include our online distributor but do not include sub-distributors.

During the year ended December 31, 2010, we added an online distributor, Red Kids E-commerce, in October 2010 and did not terminate any distributors.

In 2011, we commenced to invest more resources in developing and managing the retail network of our distributors. We performed an evaluation of our distributors based on criteria including their ability to meet our operating standards and to comply with our overall expansion plan. In 2011, we terminated 13 distributors, most of which we originally appointed as wholesalers but which we subsequently found upon re-evaluation (i) to be relatively small in size or (ii) do not possess or are unwilling to invest resources to open and manage retail outlets and to further develop the "redkids" brand. We integrated the markets covered by these terminated distributors into the markets covered by other existing distributors whom we believe have stronger management resources. In addition, we appointed distributors that we believe could support our expansion plans in provinces previously not covered by our distribution network. In 2012, we continued to evaluate our distributors and made changes accordingly. We terminated a distributor which was relatively small in size and appointed a new distributor for our Beijing and Tianjin market. Our Beijing market and our Tianjin market were previously covered by two separate distributors. These two distributors jointly formed a new entity which we appointed as our distributor to cover the Beijing and Tianjin markets. We added one and terminated four distributors in 2012, which includes the termination of the two distributors that previously covered our Beijing and Tianjin markets as well as the termination of two distributors that were relatively small in size in Hunan Province and the Xi'an region. The markets originally covered by these two distributors were then merged into the regions covered by larger distributors in the same area whom we believe have more resources and are better able to cover the respective regions. In the six months ended June 30, 2013, we did not appoint or terminate any distributors. We intend to continue conducting periodic evaluations of our distributors in the future.

During the Track Record Period, some retail outlets were transferred from terminated distributors or sub-distributors to existing or new distributors or sub-distributors. In such instances, we generally help to coordinate the transfer of inventory from terminated distributors to existing distributors or newly appointed distributors or their sub-distributors, as the case may be.

Our distributors

Our distributors are corporate entities or individuals in the PRC with relevant retail and management experience. All of our current distributors are Independent Third Parties except for Xiamen Minghao. Mr. Ding Peijie, a brother of Mr. Ding, owns 80% of Xiamen Minghao. Mr. Ding Peijie was never a director or shareholder of our Company and our Directors confirm that all transactions between us and Xiamen Minghao were entered into at arm's length and on normal commercial terms. For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our sales to Red Kids E-commerce amounted to RMB0.8 million, RMB29.8 million, RMB87.8 million and RMB37.1 million, respectively, which represented 0.2%, 7.6%, 16.9% and 14.7% of our turnover for those respective periods. Prior to July 25, 2012, Mr. Ding Peiyuan, one of our executive directors, and his wife, Ms. She Xuefen (余雪芬), owned 60% and 40% of Red Kids E-commerce, respectively. Red Kids E-commerce ceased to be a connected party on July 25, 2012 when Mr. Ding Peiyuan and his wife, Ms. She Xuefen, disposed their interests in Red Kids E-commerce to Independent Third Parties. Our sales to Red Kids E-commerce were RMB35.3 million and RMB52.5 million for the period between January 1, 2012 and July 24, 2012 and for the period between July 25, 2012 and December 31, 2012, respectively. Mr. Ding Peiyuan and Ms. She Xuefen decided to dispose their interests because neither they nor the Group had sufficient resources or expertise to further expand the online sales business and Independent Third Parties with more online distribution experience would be more able to enhance "redkids" branded products' online sales. In addition, Mr. Ding Peiyuan and Ms. She Xuefen sold Red Kids E-commerce because they wanted to focus on our Group's business. Please see "Directors and Senior Management — Mr. Ding Peiyuan (丁培源)" for more details regarding our disposal of Red Kids E-commerce.

Our Directors confirm that the transactions between Red Kids E-commerce and us were conducted on similar terms and at arm's length before and after the disposal. We sell our products to Red Kids E-commerce at a slightly higher discount to the suggested retail price when compared to our other distributors, mainly because Red Kids E-commerce does not receive the marketing reimbursements we provide to our other distributors that operate physical retail outlets. Other than the difference in wholesale price, our sales to Red Kids E-commerce are subject to the same terms and conditions as sales to other distributors, including a 90-day credit period and the same product return policy.

Under our distribution agreements and the standard agreements between distributors and their sub-distributors, we require our distributors and their sub-distributors to obtain our prior approval before they open any new retail outlets. Through the direct control of the locations in which our distributors and their sub-distributors may establish a retail outlet, we are able to prevent cannibalization amongst our distributors, their sub-distributors and the retail outlets operated by them. Based on our standardized nationwide sales policy, our distributors are only authorized to sell our products at their retail outlets under our "redkids" brand and are not allowed to sell other products at the same location which create direct competition with our products. During the Track Record Period, there were two incidents in which distributors displayed products that directly competed with our "redkids" products in their retail outlets or retail outlets operated by their sub-distributors. As soon as we discovered such incidents, we requested the violating distributors to cease such activities. We did not terminate the distribution agreements with the two violating distributors because both distributors ceased the violating activities in a timely manner and neither had previously engaged in such violating activities. As of the Latest Practicable Date, the two incidents of distributor violations had been resolved.

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Criteria for selection of distributors

We generally seek to engage distributors with retail and managerial experience, customer networks, a proven track record and adequate capital resources. In addition, we require our distributors to comply with all applicable laws and regulations for their operations pursuant to our distribution agreements. We have the right to examine and obtain copies of business licenses from our distributors upon their joining our distribution network. We also require our distributors to submit copies of their renewed business licenses every year after completing their annual inspection by the local industrial and commercial administration authorities. In addition, we designate retail management team members to carry out both on-site inspections and spot checks to ensure that our distributors comply with our sales policies. We reserve the right to terminate distribution agreements if our distributors deviate from any key terms.

Distribution agreements with our distributors

We typically enter into distribution agreement with each of our distributors for periods ranging from one to four years and renew distribution agreements with them upon the expiration of these agreements. Our distribution agreement with each of our distributors generally includes the following principal terms:

- **Duration:** Generally from one to four years and are renewable by mutual consent subject to negotiation of new terms two months prior to expiration.
- **Designated geographical areas:** Distributors are typically authorized to establish retail outlets to sell our products within designated areas or geographical regions or engage sub-distributors to operate retail outlets within designated geographical areas provided that their sub-distributors operate in compliance with our sale policies.
- **Brand and products:** Distributors are typically authorized to sell our products under our “redkids” brand at each retail outlet they operate. Our distributors are not allowed to sell other products in our branded retail outlets that directly compete with ours.
- **Our principal rights and obligations:** We have the right to check sales and inventory data of our distributors on both regular and spontaneous bases; we have obligations to (i) provide regular training to our distributors and their sales personnel with respect to retail outlet operations, brand culture, product information, sales techniques and customer service skills; and (ii) provide guidelines regarding store design and layout.
- **Principal rights and obligations of distributors:** Our distributors have the right to engage sub-distributors, subject to our prior approval; our distributors have obligations to (i) comply with all laws and regulations of the PRC relating to the qualifications of engaging in the retail business; (ii) strictly comply with our unified nationwide sales and pricing policies; (iii) use their best efforts to participate in all the promotional events organized by us; and (iv) adopt our standardized retail outlet design and layout and maintain our brand image and reputation.
- **Annual purchase guidance:** We generally discuss with and provide annual purchase guidance for our distributors before they will place and confirm their orders during our sales fairs, which are held twice a year. The annual purchase guidance varies among

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distributors depending on their historical sales performance, market position and influence, management experience, operational ability, financial capability and local competitors' performance in their designated geographical areas.

- Expansion target: Our distributors are generally required to open an agreed minimum number of retail outlets each year and the expansion target varies among our distributors depending on their sales capabilities and the geographical areas granted to them. We have the right to terminate the distribution agreement with our distributors in the event that they fail to commit to the agreed minimum number of retail outlets.
- Sale and pricing policies: Our distributors are required to and shall ensure that their sub-distributors strictly adhere to our standardized nationwide sales, pricing and discount policies for our products.
- Marketing reimbursement: Distributors, excluding Red Kids E-commerce, typically receive marketing reimbursement, which is referred to as "marketing rebate", when they meet or exceed performance targets based on sales revenue.
- Payment: Distributors are generally required to pay the full purchase prices of the products they confirmed during the sales fairs within 90 days of delivery to the designated areas or geographical regions.
- Restrictions on operations: Distributors are typically prohibited from distributing our products in any undesignated geographical areas or selling self-manufactured products. Distributors are not allowed to engage sub-distributors without our prior consent. Distributors are required to adopt our standardized retail outlet design and layout, use our standard product labels and packaging and follow our standardized marketing brochures.
- Sales return policy: Apart from products defects caused by quality issues, distributors are not allowed to return the products they have purchased from us.
- Termination: We are entitled to terminate the distribution agreement in writing with our distributors for their non-compliance with our sales policy, for instance, engaging in the sale of unauthorized products, changing retail prices without our prior approval, failing to manage sub-distributors in accordance with our operational standards or materially damaging our brands' reputation.
- Confidentiality: Distributors are obligated to keep confidential any of our trade secrets known or used by such distributors and to not disclose the same to any other third party under circumstances pursuant to the distribution agreements.

We entered into the distribution agreement with Red Kids E-commerce on October 1, 2010. Our distribution agreement with Red Kids E-commerce does not include the marketing reimbursement clause. It is otherwise substantially the same as our other distribution agreements. Our distribution agreement with Red Kids E-commerce will expire on December 31, 2013. We are currently in negotiation with Red Kids E-commerce with regard to the renewal of the agreement. As of the Latest Practicable Date, though we have not reached an agreement with Red Kids E-commerce, our Directors confirm that both us and Red Kids E-commerce have the intention of renewing the distribution agreement under substantially the same terms as the current agreement. We did not grant Red Kids E-commerce the exclusive right to distribute our products online, but as of the Latest Practicable Date, we have not appointed online distributors other than Red Kids E-commerce.

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During the Track Record Period, although our agreements with distributors typically required them to pay us in full for our products upon delivery, we granted credit periods to our distributors on a case-by-case basis, usually when we believed that the extension of credit periods to our distributors would provide liquidity and support them in developing their business with us. For the year ended December 31, 2010, we granted 30 day credit periods to substantially all of our distributors. For the each of the two years ended December 31, 2011 and 2012, we further extended the credit period to 90 days for distributors who have stable financial conditions based on our internal assessment. As part of our effort to enhance our internal control measures, commencing in July 2013 we established a credit system which systematically assesses our distributors' credit worthiness based on their financial condition, operational capabilities and past credit history. We generally do not allow credit periods over 90 days. We review and follow-up the outstanding trade receivables on a monthly basis. If the distributor does not settle its outstanding balances, we will consider suspending our delivery of products to such distributor until outstanding receivables have been settled. We recognize the provision of bad debt when the repayment from trade and bills receivables is considered doubtful. Aging trade and bills receivables are reviewed by our management team regularly to determine whether there is objective evidence of bad debt, which includes (i) significant financial difficulty of the debtor, (ii) bankruptcy of the debtor and (iii) whether the receivables were overdue for an extended period of time. During the Track Record Period, we did not suspend any delivery of products to distributors due to delay in settlement.

Management of our distributors

We believe that maintaining our image and brand recognition is critical to our success. Accordingly, we require our distributors and their sales personnel to undergo our mandatory training sessions on product knowledge and retail outlet operations to ensure that they understand our brand culture and maintain our unified brand image in their daily operations. All retail outlets in our distribution network are under the management and supervision of our retail management team, which focuses primarily on product sales, retail outlet operation and customer services. Our retail management team conducts site visits to retail outlets on a regular basis to assist our distributors in retail outlet operations and staff training. From time to time, we will have our management team personnel provide assistance to our distributors to ensure compliance with our standards.

Our distributors are required to adopt our standardized retail outlet design and layout in their retail outlets. We also have dedicated staff who work with distributors to establish these retail outlets. We closely monitor the establishment of these retail outlets and verify that the construction work meets our standards.

We typically grant each of our distributors exclusive rights in a designated area or region to avoid cannibalization among themselves. Furthermore, our distributors are not allowed to re-allocate inventories or obsolete products among themselves without our prior approval. We closely monitor inventories of our distributors, assist with the liaisons between our distributors and facilitate the re-allocation of inventories between different retail outlets on a case-by-case basis. Our distributors are typically required to make purchase orders based on their sales capabilities and are not allowed to return the products they have purchased, except in cases of defective products in which case our distributors are typically required to notify us in writing three days upon receipt of our products and are generally allowed to exchange after our further examination.

For marketing purposes, our distributors participate in various promotional campaigns and events initiated by department stores, shopping malls, or business districts where their respective

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retail outlets are located and file records with us after their participation. Our distributors are required to participate in all promotional events we initiate. We meet with our distributors at our sales fairs to collect feedback and exchange ideas regarding market trends, consumers' responses to our products and retail outlet operation. We also communicate our latest marketing strategies to our distributors on a regular basis to maintain consistent business operation and brand image across our distribution network.

We regularly evaluate the performance of our distributors based primarily on the following factors:

- ordering products in accordance with annual purchase guidance;
- opening new retail outlets in accordance with expansion targets;
- improvement in the overall sales performance and same store sales growth;
- maintaining and enhancing store appearance; and
- improvement in operating and business management capabilities.

Distributors typically receive marketing reimbursements when they meet or exceed the relevant purchase targets. These marketing reimbursements are for our distributors to use when they incur marketing expenses. For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our marketing rebates to distributors amounted to RMB27.5 million, RMB29.8 million, RMB38.8 million and RMB18.2 million, respectively.

As we sell products to our distributors on a wholesale basis, we are not obligated to and did not accept return of inventory that had not been sold by our distributors upon termination of distributorship during the Track Record Period. Distributors that terminate their relationship with us are generally allowed to continue to sell our products that have already been purchased in their respective retail outlets for a period of 60 days following the termination of distributorship. After such period, the terminated distributor is required to cease sales of our products and return all furniture, fixtures, signs and labels printed with the "redkids" logo back to us. We send representatives from our sales team to conduct on-site inspection following the 60-day period and during regular stores visits to ensure all terminated distributors do not continue selling the unsold products. The terminated distributor will bear the ultimate loss for the unsold products. During the Track Record Period, all of the terminated distributors complied with our termination policy and we did not notice any irregularities.

Sub-distributors

Our distributors are generally allowed to engage sub-distributors in their respective designated geographical region with our prior approval, and through our distributors, we indirectly give authorization to the sub-distributors to sell our products under our "redkids" brand in retail outlets operated by them. We do not require our distributors and their sub-distributors to be independent from each other. We do not have direct contractual relationships with sub-distributors. We rely on our distributors to manage their sub-distributors and to ensure that their sub-distributors comply with our policies. Based upon our current distribution agreements, the forms of agreements between our distributors and their sub-distributors are provided by us and are

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consistent with the terms of the distribution agreements entered into between us and our distributors. Based on the distribution agreement, the sub-distributors engaged by our distributors are required to sell our products exclusively at their retail outlets. We do not have direct contractual relationships with the sub-distributors engaged by our distributors, but we are still entitled to claim against the sub-distributors if they infringe on our rights, including our intellectual properties. Moreover, our distributors are required to ensure that their sub-distributors operate in compliance with our sales policies pursuant to the distribution agreements, and our distributors and their sub-distributors shall be jointly liable for all our damages and losses caused by their misconduct. Our distributors are also required to notify us within ten days upon signing the sub-distribution agreements with their sub-distributors. In addition, we require that our distributors receive our prior approval before they or their sub-distributors open a retail outlet. Through the direct control of the locations in which our distributors and their sub-distributors may establish a retail outlet, we are able to prevent cannibalization amongst our distributors, sub-distributors and the retail outlets operated by them. By allowing the engagement of sub-distributors by our distributors, we are able to effectively manage a smaller number of distributors directly. We believe that this strategy enables us to focus more on assisting our distributors to improve their operation of retail outlets and to manage them more efficiently.

As of December 31, 2010, 2011 and 2012 and June 30, 2013, there were 66, 46, 40 and 41 sub-distributors engaged by 26, 27, 24 and 24 distributors, respectively. As of the Latest Practicable Date, all of the current sub-distributors engaged by our distributors are Independent Third Parties. As of December 31, 2010, 2011 and 2012, we had 476, 560, 594 and 582 retail outlets in our distribution network, of which 255, 302, 334 and 341 were operated by sub-distributors. The following table sets forth changes in the number of sub-distributors during the periods indicated:

	As of/For the year ended December 31,								As of/For the six months ended June 30,				
	2009		2010		2011		2012		2013				
	Total	Appointed	Total	Appointed	Total	Appointed	Total	Appointed	Total	Appointed	Total		
Sub-distributors . . .	104	12	50	66	9	29	46	5	11	40	2	1	41

The number of sub-distributors decreased from December 31, 2009 to December 31, 2010 primarily due to terminations of sub-distributors that (i) were relatively small in size or (ii) had unsatisfactory sales performance. At the same time, our distributors appointed sub-distributors which they believe have better resources to cover the areas originally covered by the terminated sub-distributors. Our total number of sub-distributors further decreased from 66 as of December 31, 2010 to 46 as of December 31, 2011 primarily because of terminations of our distributors which were relatively small in size or did not possess or were not willing to invest the resources to open additional retail outlets. In turn, the sub-distributors appointed by such terminated distributors were also terminated. Our distributors terminated 11 sub-distributors in 2012 for reasons such as unsatisfactory sales performance or the termination of their lease agreements. In the six months ended June 30, 2013, one sub-distributor was terminated because of unsatisfactory sales performance.

Terminated sub-distributors are generally allowed to continue to sell our products that have already been purchased by them in their respective retail outlets for a period of 60 days following the termination of sub-distributorship. After such period, the terminated sub-distributor is required to cease sales of our products and discard all of our products that are unsold. The terminated sub-distributor will bear the ultimate loss for the unsold products. Our distributors then send representatives to conduct an on-site inspection to ensure that the terminated sub-distributor has terminated all sales of “redkids” branded products. In addition, our distributors are required to

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inform us as soon as they detect any terminated sub-distributors selling the unsold products after the 60 days following the termination of sub-distributorship. During the Track Record Period, we have not been informed by our distributors that any of the terminated sub-distributors failed to comply with the termination policy and we have not been informed of any irregularities with respect to the terminated sub-distributors by our distributors.

Sales Fairs and Purchase Orders

We generally organize two sales fairs for our distributors and their sub-distributors to purchase our new collections each year. The exact time of our sales fairs varies from year to year because our sales fairs are typically organized to accommodate our sales and marketing plan. We generally organize sales fairs for our new products of the spring/summer collection during August to September and our new products of the fall/winter collection during March to April.

We collect orders from our distributors primarily at our sales fairs. During the Track Record Period, substantially all of the sales orders placed by our distributors at our sales fairs have been recognized. In addition, during the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, 95.2%, 95.4%, 95.6% and 90.4% of our turnover were derived from sales orders placed and confirmed by our distributors during the two sales fairs.

Pricing

Our profitability depends in part on the market positioning of our brand and products. In order to maintain our price competitiveness and sales volume, we review our retail pricing strategy regularly and make adjustments based on the following factors:

- production costs and procurement costs of our products;
- historical sales data of our products;
- the characteristics of our products;
- the expected profit margin of our individual products;
- the price of our competitors' products; and
- the degree of saturation of the current market, anticipated market trends and expected changes of demand from end customers.

The retail price range of our products is typically determined by our headquarters. All of our distributors are required to strictly follow our standardized nationwide retail pricing and discount policy pursuant to the terms of the distribution agreements entered into by us and our distributors. Our products are sold to distributors at an annual pre-determined discount to the suggested retail prices.

Retail Outlets for Our Products

We generally seek to open street shops under our brand primarily in prime commercial locations with high pedestrian traffic flow in third- and fourth-tier cities and to establish concessions in large and well-known department stores in selected prime locations in cities where our products are sold, which typically attract frequent visits by our target end customer base.

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Street shops

Street shops under our “redkids” brand are mainly individual stores located in prime commercial locations of third- and fourth-tier cities. As of June 30, 2013, we had 308 street shops, all of which were operated by our distributors and their sub-distributors.

Department store concessions

Our distributors lease concession space for the display and sale of our products in major department stores across China. As of June 30, 2013, there were approximately 212 concessions under our “redkids” brands with the majority located in prime commercial locations, which aim to attract large end customer volumes and allow for effective brand advertising. All of our department store concessions are operated by our distributors and their sub-distributors.

Shopping mall outlets

Shopping mall outlets under our “redkids” brand are independent stores in large shopping malls. The large display areas at our shopping mall outlets allow us to carry out promotional activities and introduce a wide range of products. As of June 30, 2013, we had 62 shopping mall outlets, all of which were operated by our distributors and their sub-distributors.

Management of Retail Outlets

Location

We believe that location selection is critical to the success of the operation of retail outlets in our distribution network. As a result, we work together with our distributors to select locations for our branded retail outlets and our prior approval is required before opening any retail outlets. Retail outlets in our distribution network are typically located in prime commercial locations with high levels of pedestrian traffic flow in third- and fourth-tier cities. We typically consider the following factors when selecting a location to establish a new retail outlet:

- proposed location of the retail outlets and the shopping patterns and spending power of the target end customers;
- analysis of the population density and growth, and development potential;
- competition in the surrounding area of the proposed location; and
- estimated initial capital investment, investment payback period and date of return on investment.

Design and appearance

Each of our branded retail outlets is characterized by our trendy and colorful brand image and happy and healthy brand culture. We also aim to create a comfortable and uniform shopping environment for our end consumers. The design, appearance and layout of retail outlets under our “redkids” brand follow visual guidelines set by us and are readjusted every season based on the featured themes. Under the guidelines, all retail outlets must present a consistent visual image, particularly through the design and color of the products, shop setup, merchandise, and window

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and model display. In addition, we have dedicated staff who work with distributors to establish these retail outlets. We monitor all stages of the establishment of these retail outlets and verify that the construction work meets our standards.

Competition

We typically grant each of our distributors exclusive rights in a designated area or region to avoid cannibalization amongst themselves. Furthermore, under our distribution agreements and the standard agreements between our distributors and their sub-distributors, we require our distributors and their sub-distributors to obtain our prior approval before they open any new retail outlets. Through controlling the locations in which our distributors and their sub-distributors may establish a retail outlet, we are able to avoid cannibalization and prevent competition amongst our distributors and their sub-distributors at the retail level.

In order to avoid direct competition with our distributors and their sub-distributors, we seek to establish our self-operated retail outlets in locations that complement and not duplicate the coverage of retail outlets operated by our distributors and their sub-distributors. In the event that there is an overlap in the geographical coverage of our self-operated retail outlet and a retail outlet operated by our distributor or their sub-distributor, we will engage in prior discussions with our distributor in that particular region regarding our plans to establish our self-operated retail outlet. In addition, we plan to apply the following measures to mitigate the potential adverse effects resulting from having more than one retail outlet in a geographical region:

- (i) offering our products through different sales channels. For instance, establishing our self-operated retail outlets in concession stands of department stores when our distributors' retail outlets are located in shopping mall outlets or street shops;
- (ii) offering different product mix or product categories in our self-operated retail outlets and retail outlets operated by distributors or sub-distributors; and
- (iii) strictly implementing a standardized nationwide retail pricing and discount policy for our products.

Online Sales

We sell a portion of our products to a designated online distributor, Red Kids E-commerce, which purchases products from us on a wholesale basis before selling them to end customers through online sales platforms such as Taobao, VIPShop and V+. Under our distribution agreement with Red Kids E-commerce, we recognize revenue when our products are delivered to Red Kids E-commerce. We intend to continue to expand our online sales business together with Red Kids E-commerce by collaborating with online sales platforms which focus on the same target customer group as we do, in particular those frequently visited by younger parents. Our sales to Red Kids E-commerce increased significantly from RMB0.8 million for the year ended December 31, 2010 to RMB29.8 million for the year ended December 31, 2011 to RMB87.8 million for the year ended December 31, 2012, and it increased from RMB24.5 million for the six months ended June 30, 2012 to RMB37.1 million for the six months ended June 30, 2013. For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our sales to Red Kids E-commerce represented 0.2%, 7.6%, 16.9% and 14.7% of our turnover.

We have also been collaborating with online sales platforms to promote our "redkids" brand through the placement of online advertisements prior to holiday seasons, such as Chinese New Year. In addition, we seek to enhance our brand awareness by continuing to introduce products

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with distinct styles online that are designed to attract the attention of new customer groups, in particular younger parents who comprise a large portion of online customers, which in turn may help enlarge our customer base. To support the development of our online sales business, we also seek to identify quality raw material suppliers and OEMs that can help us reduce our online products' time-to-market. In order to remain competitive in the online market we must frequently introduce new products to attract the attention of our target customers. In the future, we plan to use the information gathered from online sales as a reference for our product design and development.

We plan to further develop our online sales business by connecting it with the establishment of our self-operated retail outlets. We intend to showcase certain products at our self-operated retail outlets so that potential customers can experience these products physically before purchasing them online. In turn, we believe this sales model will help to not only strengthen our brand image, but also increase our market share. We aim to further develop our online sales channel so as to increase our reputation and profitability.

Mr. Ding Peiyuan, one of our executive directors, and his wife, Ms. She Xuefen, owned 60% and 40%, respectively, of Red Kids E-commerce prior to July 25, 2012, when Mr. Ding Peiyuan and Ms. She Xuefen sold their interests in Red Kids E-commerce to Independent Third Parties. Our sales to Red Kids E-commerce were RMB35.3 million and RMB52.5 million for the period between January 1, 2012 and July 24, 2012 and for the period between July 25, 2012 and December 31, 2012, respectively.

Our Directors confirm that the transactions between Red Kids E-commerce and us were conducted on similar terms and at arm's length before and after the disposal. Sales to Red Kids E-commerce are subject to similar terms and conditions as sales to other distributors.

Self-Operated Retail Outlets

We plan to establish self-operated retail outlets in prime locations of selected regions which we believe have high sales growth potential and to gradually increase the proportion of our self-operated retail outlets. We intend to use our self-operated retail outlets as model stores to enhance our brand recognition, demonstrate our standards for store appearance and provide guidance to our distributors in brand promotion and retail management. We believe that these self-operated retail outlets, along with our other efforts, would help to further improve and unify our brand image at the retail level. See "Business — Our Business Strategies — Establish self-operated retail outlets and continue to expand our distribution network".

There are certain potential risk associated with establishing self-operated retail outlets. Our management team members have to allocate their time from our other daily operations to retail management matters. In addition, we expect the staff costs under our selling and distribution expenses to increase as we employ additional employees to run our self-operated retail outlets. Furthermore, we incur expenses and capital expenditures for our self-operated retail outlets, including rental for the premises, utilities, cost of display furniture and fixtures and maintenance of inventories, all of which put pressure on our cash flows. If we fail to properly manage our self-operated retail outlets, we face the risk of adversely affecting the reputation of our "redkids" brand and our financial performance. Please see "Risk Factors — Our limited experience operating self-operated retail outlets and our failure to effectively handle the risk associated with operating our self-operated retail outlets may materially and adversely affect our business, financial condition, results of operations and prospects."

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To manage these risks, we plan to expand our self-operated retail outlets in a phased and well-paced manner. We intend to open self-operated retail outlets initially in first- and second-tier cities, such as Shanghai and Wuhan, to ensure that we have adequate market exposure for our first self-operated retail outlets. We intend to open additional self-operated retail outlets gradually and to keep the total number of self-operated outlets under 50 before December 31, 2014 to limit the impact on our cash flows and allow our management to continue to focus on our principal operations. All of our self-operated retail outlets will be newly set-up and will include street shops, shopping mall outlets and department store concessions. While we believe our management team has sufficient prior experience operating retail outlets, we plan to strengthen our ability to operate these self-operated retail outlets through the hiring of qualified personnel. Before we open a self-operated retail outlet in a location, we plan to study the sales pattern of other industry players in that market and use as reference in determining the proper business strategies, sales and inventory management and product mix for that market. Furthermore, we plan to discuss with our distributor covering that market to avoid potential competition and to gain a better understanding of that market through their accumulated local knowledge. In our selection of the location for our self-operated retail outlet, we seek to complement and not duplicate the coverage of retail outlets operated by our distributors. In areas already covered by our distributors, we plan to strictly implement a standardized nationwide pricing and discount policy with the respective local distributor.

We expect to incur an average of approximately RMB0.6 million to RMB1.0 million in initial set-up costs for each self-operated retail outlet depending on the location of the retail outlet. The initial set-up costs for our retail outlets include store decoration, furniture, inventory and staff and other operating expenses. We expect to incur no more than RMB3.0 million and RMB40.0 million of capital expenditures for establishing our self-operated retail outlets in 2013 and 2014, respectively. We plan to use our internal funds and proceeds from our Global Offering to fund the establishment of these retail outlets. We expect the payback period⁽¹⁾ for the initial setup costs of each of our self-operated retail outlets to be approximately two to three years. We expect the profit and loss breakeven period⁽²⁾ for each of our self-operated retail outlets to be between three to six months.

Following the establishment of our self-operated retail outlets, part of our revenue will be derived directly from retail sales at our self-operated retail outlets in addition to revenue derived from wholesales to distributors and the provision of OEM services. We expect sales from our self-operated retail outlets to drive the growth of our revenue alongside our sales to distributors. We expect the increase in our selling and distribution expenses to outpace the growth of our revenue in 2013 and 2014 due to the costs to be incurred associated with the opening of our self-operated retail outlets. As a result, we do not expect our operating profit and net profit margin to improve prior to 2015. However, we expect our operating profit and net profit margin to improve in the long-run as we expect to incur most of the costs associated with the opening of our self-operated retail outlets in 2013 and 2014.

We expect to incur net cash outflow in 2013 and 2014 in relation to the operation of self-operated retail outlets because of the costs associated with the opening of these retail outlets.

Note:

- (1) *The period of time required to recover the initial setup costs, which is expected to grow in line with the Group's overall capital expansion plan, of each self-operated retail outlet by its net profit, assuming the revenue will increase in line with the overall business growth and there will be no material impact on the business and operating result of the self-operated retail outlet due to the seasonal fluctuations in market demand, market inflations, increase in new material costs and labor expenses throughout the operation periods.*
- (2) *The period of time required for a self-operated retail outlet to generate sales equal to its operating cost for the first time, assuming the nurturing period for each of the new self-operated retail outlets would generally take one to three months after opening and revenue growth rates and gross profit margins would be similar to the existing self-operated retail outlet.*

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However, we still expect to have net cash generated from operating activities in 2013 and 2014 as a result of the cash inflow from sales to distributors. We expect to incur net cash outflow for investing activities in 2013 and 2014 in relation to the set-up costs associated with the opening of our self-operated retail outlets.

We believe it is appropriate to pursue the strategy of establishing self-operated retail outlets because (i) we have years of experience in building our sales and distribution network in the PRC; (ii) we would have a more comprehensive retail coverage with the establishment of self-operated retail outlets; (iii) we expect our overall gross profit margin to improve through the establishment of our self-operated retail outlets; and (iv) as a brand management company, it is essential that we understand the latest changes in market preferences and collect first-hand feedback from end customers through our self-operated retail outlets in order to continue to improve our product designs and further enhance our marketing plans.

MARKETING AND PROMOTION

We believe that an effective marketing and promotion strategy is imperative in building our brand. We have received increasing media attention and were accredited as one of the “Top Ten Brands for Children’s Apparel in China” (中國十大童裝品牌) in 2013. Moreover, our marketing and promotion activities such as advertising campaigns and charity events help us to raise our brand profile and increase awareness of our brand concepts. Our brand promotion and marketing division is responsible for understanding our brand position and for making appropriate sales and marketing plans.

The following are our main promotional activities:

Advertising Campaigns

We generally organize our advertising campaigns with the release of our new seasonal collections. Our advertising campaigns typically include billboard advertisements and magazine advertisements. We believe advertising campaigns are important for promoting our brand awareness and brand culture as well as for attracting our target consumers. In addition, we provide reimbursements to distributors who meet performance targets to support their advertising campaigns.

Seasonal Events

We encourage our distributors and their sub-distributors to actively participate in the seasonal promotion events held by department stores, shopping malls and business districts where our “redkids” brand retail outlets are located. Such promotions generally entail price reductions storewide and are typically held during holidays, new product releases and change of seasonal collections. We also recommend our distributors and their sub-distributors to offer discounts on selected products during promotional periods, which usually take place at the end of each season.

Websites

We will also promote our “redkids” brand through Internet media, such as micro-blogs. Consumers can access our official company website (www.redkids.com) and our online distributor’s website to obtain more information about our brands, latest products and promotional events. Furthermore, through our designated online distributor, we have been collaborating with online sales platforms to promote our “redkids” brand through various forms of online advertisements.

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Other Marketing Campaigns

In addition to the aforementioned marketing campaigns, we also participate in fashion shows and charity events to heighten our media coverage and enhance our brand image. In 2011, we displayed the latest designs and styles of our “redkids” brand at the Beijing International Clothing & Accessories Fair (北京國際服裝服飾博覽會). The media coverage of this event helped raise awareness of our brand within the fashion community. Furthermore, we also promote our brand through charity events. For instance, we donate our products to children in rural areas of the PRC. We believe that such form of marketing not only strengthens our brand recognition but also enhances our brand image.

Furthermore, some of our distributors have implemented VIP customer programs at the retail outlets operated by them or their sub-distributors. Through the VIP customer programs, they provide discounts to end customers.

For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our marketing and promotion expenses were approximately RMB28.8 million, RMB36.2 million, RMB41.2 million and RMB18.7 million, respectively, representing approximately 8.8%, 9.2%, 7.9% and 7.4% of our turnover, respectively.

PRODUCTION, OUTSOURCING AND PROCUREMENT

During the Track Record Period, we manufactured a portion of our products at our production facilities in Quanzhou, Fujian Province and outsourced the remaining to OEMs. Our self-produced products include T-shirts, shirts, tank tops, pants, blouses, and shorts, while we outsource the production of products that require special production technologies and know-how, such as jeans, sweaters and down jackets. For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, the proportion of products that were manufactured by our OEMs continued to increase, accounting for approximately 14.6%, 40.2%, 50.1% and 68.1% of our total cost of sales, respectively. For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, the gross profit margin of our self-produced products were 40.5%, 37.4%, 40.2% and 36.3%, respectively, while the gross profit margin for our outsourced products were 38.6%, 35.6%, 35.0% and 37.9%, respectively. In the future, we intend to utilize our production know-how, accumulated through our many years of experience as an OEM service provider to international apparel brands, to identify and collaborate with qualified OEMs and raw material suppliers. We intend to continue to increase our outsourced production to OEMs to support our increased sales.

Our Production Facilities, Production Capacity and Utilization Rate

Our production facilities are located in Quanzhou, Fujian Province and occupy 20,575.8 sq.m. of land. The following table shows the annual designed production capacity, annual weighted production volume and overall utilization rates during the Track Record Period:

	Year ended December 31,			Six months ended
	2010	2011	2012	June 30,
	('000)	('000)	('000)	2013
				('000)
Designed production capacity ⁽¹⁾	38,610	38,610	38,610	19,305 ⁽⁴⁾
Weighted production volume ⁽²⁾	30,244	29,055	30,487	8,834
Overall utilization rates ⁽³⁾	78.3%	75.3%	79.0%	45.8%

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Notes:

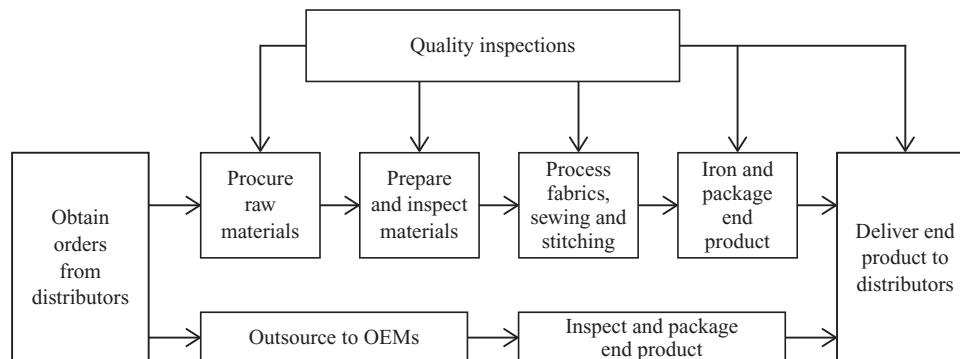
- (1) *Designed capacity is calculated by assuming that the production of T-shirts is carried out on all of our production lines for one shift of 11 hours per day and 300 days per year.*
- (2) *Weighted production volume is calculated by summation of the weighted production volume of all product categories manufactured in-house when converted into equivalent volume of T-shirts.*
- (3) *Utilization rate is calculated by dividing the weighted production volume by the designed capacity.*
- (4) *For the six months ended June 30, 2013, our designed capacity is calculated by assuming that the production of T-shirts is carried out on all of our production lines for one shift of 11 hours per day and 150 days per year.*

Our overall utilization rate decreased from 79.0% for the year ended December 31, 2012 to 45.8% for the six months ended June 30, 2013 primarily because of our decision to focus our resources and management's attention on aspects other than manufacturing that we believe contribute more value to our business, such as brand management and sales and marketing. While we outsourced a greater proportion of our production for the six months ended June 30, 2013, we do not intend to further reduce our in-house production volume going forward. We expect to maintain our current utilization rate and the excess capacity as back-up for any unforeseen surge in demand for our products or disruption to our supply chain. During the Track Record Period and as of the Latest Practicable Date, we incurred no impairment for our property, plant and equipment. Our manufacturing personnel decreased from approximately 590 as of December 31, 2012 to approximately 350 as of June 30, 2013. There were no compensations paid nor outstanding disputes or settlements relating to the reduction of our manufacturing personnel during the six months ended June 30, 2013.

Our production process

Our workflow for in-house manufacturing is streamlined to enhance production efficiency and product quality. We participate in every stage of the production process, including (i) procuring raw materials; (ii) preparing and inspecting raw materials; (iii) processing fabrics, sewing and stitching; (iv) inspecting finished products; and (v) ironing and packaging finished products. Members of each team along the production line work together. We inspect fabrics, products-in-progress and final products throughout the manufacturing process. Product concepts usually take four months to go through our design and production process.

The following diagram outlines our in-house production process:



Raw Materials Procurement

As of June 30, 2013, we procured raw materials, such as fabrics and auxiliary materials including buttons and zippers, from our 21 domestic raw material suppliers, all of which were

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Independent Third Parties, for our in-house production. Our total cost of raw materials accounted for approximately 64.8%, 44.6%, 37.2% and 23.7% of our total cost of sales for the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively. We have on average over two years of relationship with our top five raw material suppliers. Our raw material suppliers are responsible for the transportation costs incurred in delivering raw materials to our designated warehouse. Our Directors have confirmed that we did not experience any shortage of supply in raw materials during the Track Record Period.

Outsourcing

We typically engage OEMs to manufacture or process products that require special skills or production technologies, such as sweaters, jeans and down jackets. Our OEMs are enterprises with experience in the production of apparel and accessories as well as advanced manufacturing facilities and technologies, and we request them to consistently provide products that fulfill our quality requirements. We did not experience any labor strikes of or disputes with our OEMs during the Track Record Period.

We carefully select OEMs which could satisfy our evaluation and assessment criteria, including their overall track record, financial strength, experience, reputation, ability to produce high-quality products and quality control. We request to inspect the business licenses, tax registrations and other relevant certificates of our OEMs before engaging them. We require our OEMs to keep confidential our commercial secrets known or used during our cooperation period. Our OEMs shall be liable for all our financial losses if they disclose our commercial secrets to any third party under any circumstances without our prior consent.

Purchases from our five largest OEMs and raw material suppliers accounted for approximately 36.5%, 37.4%, 43.1% and 54.9% of our total cost of sales for the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively. Purchases from our largest supplier accounted for approximately 12.0%, 11.2%, 10.4% and 15.8% of our total cost of sales for the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively. Our purchases from OEMs increased significantly during the Track Record Period because we made the strategic decision to focus our resources and management's attention on certain stages in our production life cycle that we believe contribute more value to our business, such as brand promotion and sales and marketing. As a result, we did not expand our production capacity as our sales volume increased and instead outsourced the production of this additional demand. Furthermore, we outsource to OEMs the manufacturing of products which we do not have the requisite technologies and machineries to produce internally, including jeans, sweaters and down jackets. We have on average over two years of relationship with our five largest OEMs and raw material suppliers. We generally receive from our OEMs and raw material suppliers credit periods of approximately 30 days. Our OEMs and raw material suppliers typically require us to make deposits and prepayments. Our purchase agreements with OEMs state that if we suffer losses due to manufacturing defects attributable to the OEM, that OEM shall be liable and bear the relevant costs. According to our PRC legal adviser, Jingtian & Gongcheng, the purchase agreements are valid, binding and enforceable under PRC laws, and the OEMs engaged by us are liable for any costs and liabilities relating to any defects of the products produced by them. During the Track Record Period, we did not experience any shortage of supply and we have not claimed any damages or losses from our OEMs in respect of product defects.

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The following table sets forth changes in the number of our OEMs during the periods indicated:

	For the year ended December 31,									As of June 30,				
	2009			2010			2011			2012			2013	
	Total	Appointed	Terminated	Total	Appointed	Terminated	Total	Appointed	Terminated	Total	Appointed	Terminated	Total	
OEM ...	4	2	0	6	11	2	15	2	4	13	5	6	12	

For 2010 and 2011, we appointed a number of new OEMs to support our increased proportion of outsourced production. In 2011, we terminated two OEMs that could not continue to deliver our orders at competitive prices. In 2012 and the six months ended June 30, 2013, the total number of OEMs we engaged remained relatively stable. During those periods, we appointed two and five and terminated four and six OEMs, respectively, as we sought to work with OEMs that could better support our production needs and business developments. We terminated the engagement of OEMs that did not deliver our products on time or could not support our production needs at competitive prices.

We are generally not involved in our OEMs' selection of raw material suppliers and we generally do not require that our OEMs purchase raw materials from designated suppliers. Our quotes from the OEMs include the total costs only, and the raw material costs are not separately listed. We apply our manufacturing experience and refer to publicly available prices of raw materials applicable to the fabrics used in our products to assess and examine the reasonableness of our OEMs' quotes. Our fees paid to the OEM are determined with reference to publicly available raw material prices, the scale and reputation of the OEM, the product delivery time and price quotes offered by comparable OEMs. We may suggest that our OEMs seek alternative raw material suppliers or recommend raw material suppliers if we find an OEM's quote to be unreasonable. To ensure the quality of the raw materials procured by our OEMs, our quality inspection team examines the quality of the raw materials purchased by our OEMs. In addition, our quality inspection team inspects final product samples prior to large-scale production, work-in-progress products and subsequently all batches of finished goods. Our sales team inspects the area around "redkids" branded retail outlets during their regular store visits to detect and prevent our OEMs from selling sub-standard products or engaging in unauthorized production of our products. We also encourage our distributors to detect and report back to us any sales of sub-standard products or unauthorized products in the market. Our distributors are generally willing to collaborate as such activities may adversely affect their sales. During the Track Record Period, we were not aware of any incidents relating to our OEMs disclosing our commercial secrets to other parties, nor were we aware of any of our OEMs engaging in the selling of sub-standard products or the unauthorized production of our products.

None of our Directors, their associates, or any shareholders who, to the knowledge of our Directors, owns more than 5% of our issued share capital, had any interest in any of our top five OEMs and raw material suppliers during the Track Record Period.

Set out below are the material terms of the purchase agreements we generally enter into with our OEMs:

- **Quality:** Our OEMs are generally required to procure raw materials, manufacture and package our products in accordance with national standards and our guidelines. Our OEMs are not allowed to sub-contract their work to third parties without our prior written approval. We periodically dispatch order handling and quality control staff to inspect the production process, including pre-production samples and final products, both prior to and after admitting them to our warehouses. OEMs are required to obtain our approvals before a volume production can commence.

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- **Delivery:** OEMs are generally required to deliver the finished products to our designated warehouse.
- **Payment:** We are generally required to pay 30% of our total contract value as an initial deposit upon execution of the purchase agreements with OEMs. We shall pay the remaining amount within 30 days of confirming the quality and quantity of the finished products delivered by OEMs.
- **Product defects:** OEMs are generally liable for damages and losses in connection with the quality of the supplied products that occur within one year of product delivery. We are entitled to request OEMs to unconditionally refund the purchase price paid for the defective products within one year after we receive such products.
- **Termination:** We reserve the right to terminate the purchase agreement with OEMs for their delay or failure in product delivery, defective products or non-compliance with our production guidelines or if the OEM engages in selling sub-standard products or unauthorized production of products under our “redkids” brand.
- **Confidentiality and non-competition:** Our OEMs do not exclusively produce products for us. We require that they keep confidential any of our intellectual properties and/or trade secrets known or used by such OEM, and to not disclose or pass the same to any third party under any circumstances pursuant to the purchase agreements. Our OEMs are required to use the labels imprinted with our brand logo provided by us or our designated raw material suppliers and are required not to use the leftover labels without our authorization.

OUR OEM BUSINESS

We provide OEM services for certain domestic and overseas customers at our production facilities in Quanzhou, Fujian Province. Our domestic customers primarily consist of sportswear retailers in China, and our overseas customers are mainly children’s apparel wholesalers from Russia, Italy and Saudi Arabia. For domestic customers, we have the right to receive full payment for our services within a month of our delivery of our products. For overseas customers, we have the right to obtain up-front prepayment and the remaining sum after our customer receives the original receipt of shipment from us. We are obligated not to engage a third party to manufacture the products of our customers, and we provide a one-year product warranty to domestic customers but no product warranty to overseas customers. We are able to fulfill our obligation to not engage third parties to manufacture the products of our customers because we do not accept OEM orders unless we are certain that we have the production capacity required to fulfill such orders. For domestic sales, we are liable under the PRC Product Quality Law (產品質量法) and the PRC Tort Law (侵權責任法) for the quality of the products we manufacture and for the damage caused to others by any defective products we produce. Our OEM contracts with overseas customers do not stipulate the laws applicable to disputes arising from these contracts. However, according to our PRC legal adviser, Jingtian & Gongcheng, when a contract does not stipulate the laws applicable to disputes arising from such contract, the laws of the country deemed most relevant to the transaction may be applied. If PRC laws, which includes the PRC Product Quality Law, the PRC Tort Law and related regulations, are determined to be most relevant by the relevant dispute settlement bodies, we may be subject to the same liabilities for products we manufacture for overseas customers as for products we manufacture for domestic customers. Our turnover from OEM services accounted for 4.3%, 2.4%, 0.5% and 0.3% of our total turnover for the three years

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ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013. Our turnover derived from OEM services decreased over the Track Record Period as we continued to shift our focus to the development and sale of products under our own “redkids” brand.

QUALITY CONTROL

We believe that our commitment to quality control is one of the principal factors contributing to our success. In 2013, we were recognized as an “Excellent Enterprise for Trustworthy Quality in China” (全國質量誠信優秀企業) issued by the China Quality Inspection Association (中國質量檢驗協會). We are committed to continuing to offer high-quality products to consumers and performing stringent quality control throughout procurement and production. We have implemented multiple points of quality control and inspection throughout our in-house manufacturing process and production outsourced to our OEMs. Our quality control process starts early in the design and research and development stage when we carefully examine the functionality and quality of raw materials to be used for manufacturing. We then review the product samples produced by our production team or our OEMs. We also arrange for our quality control staff members to carry out spot checks of semi-finished products at our production facility and the production facilities of our OEMs regularly and when necessary to ensure that they comply with our standards. After the manufacturing process, our quality control staff generally conducts random sample tests before packaging and warehousing. We also inspect our finished products before they are sold to distributors. In addition, to further ensure the quality and safety of our products, we have engaged nationally accredited quality inspection agencies to examine both raw materials and product samples provided by our OEMs before their large-scale production and for subsequent batches of products. We paid the nationally accredited quality inspection agencies approximately RMB32,000, RMB102,000, RMB151,000 and RMB71,000 for the three years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013 respectively for such inspections. We obtained a confirmation letter issued by Quanzhou Administration Bureau of Quality and Technology (the “Bureau”) dated July 29, 2013 (the “Quality Control Confirmation”) in which the Bureau confirmed we complied with the relevant laws and regulations in relation to product quality, and our products met the relevant national standards. As advised by our PRC legal adviser, Jingtian & Gongcheng, the Bureau is a competent and appropriate authority to provide such confirmation and such confirmation should not be challenged by a higher level authority because Article 8 of the PRC Product Quality Law (產品質量法) stipulates that local quality control bureaus at or above the county level are the competent authority for supervising product quality within their respective administrative regions. In addition, as advised by our PRC legal adviser, Jingtian & Gongcheng, under the Product Quality Law of the PRC, the product quality supervision and inspection system is conducted on a sampling basis. Our products are subject to and have all passed the sampling inspection implemented by the Bureau. According to our PRC legal adviser, Jingtian & Gongcheng, we were able to obtain the “Quality Control Confirmation” despite of the two quality control incidents mentioned below because our products that were taken for random inspection by the Bureau have all passed the sampling inspection. In addition, we have not received any written notices from relevant government authorities with regard to fines or punishment in relation to our product quality.

Our Directors confirm that there were no material product recalls or major complaints against our products. During the Track Record Period, we had no sales returns. We comply with relevant PRC consumer protection laws with respect to policies on the return of merchandise.

Quality Control Incidents

During the Track Record Period, there were two quality control incidents with regard to three of our products. Our aggregate maximum potential liability under the two incidents in terms of fines from the relevant government authorities is RMB5.4 million. Our Controlling Shareholders have agreed to indemnify us in relation to penalties or fines resulting from the two incidents.

First Quality Control Incident

The first incident involved a batch of 9,740 pairs of Product One, which was produced by one of our OEMs. Our attention was first drawn to this incident on May 13, 2013 by our online distributor, Red Kids E-commerce. We learned from Red Kids E-commerce that they received an anonymous call informing them that Product One contained aromatic amine levels that exceeded the relevant national standard. On the following day, in response to such information, we immediately sent another sample batch of Product One to the National Textile and Fashion Quality Control Inspection Center in Fujian for re-inspection. The inspection result indicated that Product One had aromatic amine levels of 291 mg/kg, which exceeded the 20 mg/kg safety threshold under the National General Safety Technical Code for Textile Products⁽¹⁾ by 271 mg/kg on May 18, 2013, and on the same day, we immediately requested that Red Kids E-commerce (i) cease sales of, (ii) commence to accept returns of, and (iii) announce the inquiry hotline for the return of Product One. On May 30, 2013, in order to provide timely product safety information to our customers, Red Kids E-commerce announced the product return notice on its website, and we have requested all of our distributors and their sub-distributors to place in their respective retail outlets a written notice with regard to accepting returns of Product One (the “Announcement”). The Announcement was placed on Red Kids E-commerce’s website on May 30, 2013 and at the retail outlets of our distributors and their sub-distributors from May 30, 2013 until August 2013. As of the Latest Practicable Date, (i) we have not withdrawn the acceptance of return of Product One and (ii) no customers have returned any of Product One to our distributors or their sub-distributors. CCTV broadcasted this incident based on the investigations and finding of the BCA on May 30, 2013. The BCA published on its official website that our products contained aromatic amine levels exceeding relevant national standards on May 31, 2013. Our Directors are of the view that the BCA’s investigation and findings and the report of this incident on CCTV did not cause adverse effects on our business and product reputation because our business operation had not been interrupted since the publication of this incident and our sales continued to grow for the four months ended October 31, 2013.

To the best of our knowledge, dyes containing aromatic amine are used in the dyeing process of dark colored jeans to increase the brightness of the fabric and to fix the color to the fabric. Based on publicly available information, the use of dyes containing aromatic amine during the production of deep-blue children’s jeans is not uncommon within the industry in the PRC. Daily exposure to aromatic amine and ammonia could cause adverse effects to an individual’s health, including the development of cancer. However, according to confirmations we received from the Bureau and Zhong Fang Xie Quality Control (Quanzhou) Technology Services Company, Ltd. (中紡協檢驗(泉州)技術服務有限公司) on December 11, 2013 (the “First Quality Control Incident Confirmations”), (i) in general, repetitive and continuous contact with or exposure to large amounts of aromatic amine could increase the likelihood of adverse effects on an individual’s

Note:

(1) *Promulgated in January 2011 and effective in August 2012 (GB18401-2010)*

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health, including the development of cancer; (ii) under normal circumstances, our end customers will not wear Product One, which has an aromatic amine level of 291 mg/kg, on a daily basis over many years; and (iii) based upon information and research results available to the Bureau and Zhong Fang Xie Quality Control (Quanzhou) Technology Services Company, Ltd. (中紡協檢驗(泉州)技術服務有限公司), as of December 11, 2013, there is no conclusive evidence that there will be severe adverse effects on one's health or development of cancer following a quantified amount or length of contact with aromatic amine and there are currently no known instances of development of cancer or other severe adverse health effects on individuals resulting from wearing children's apparel that contain aromatic amine levels exceeding the relevant national standard. According to the First Quality Control Incident Confirmations, our end customers should not suffer from severe adverse health effects, including the development of cancer, under normal usage of Product One. As advised by our PRC legal adviser, Jingtian & Gongcheng, the Bureau is a competent and appropriate authority to provide such an opinion. Zhong Fang Xie Quality Control (Quanzhou) Technology Services Company, Ltd. (中紡協檢驗(泉州)技術服務有限公司) is accredited by a national accreditation body of China, which in turn is part of an international accreditation multilateral recognition system, unitarily responsible for the accreditation of certification bodies, laboratories and inspection bodies. Based on the foregoing, the Joint Sponsors are of the view that Zhong Fang Xie Quality Control (Quanzhou) Technology Services Company, Ltd. (中紡協檢驗(泉州)技術服務有限公司) is a qualified and competent, internationally recognized institution and that the Bureau is a competent authority to provide their views on the risk of causing adverse effects to an individual's health through wearing Product One.

Although we require our OEMs to test for aromatic amine in the products they manufacture for us, our investigation revealed that this particular OEM did not conduct all required tests on this batch of deep-blue jeans. We did not detect this quality control incident due to administrative oversight by our quality control personnel. The amount of sales for Product One amounted to approximately RMB0.6 million and according to our PRC legal adviser, Jingtian & Gongcheng, we may be subject to a fine that includes the sales revenue from this batch of Product One and a penalty of no more than three times the amount of sales revenue. We have since terminated the engagement of this OEM. We sold this batch of jeans to Red Kids E-commerce in September 2011 and as of the Latest Practicable Date we have not received any formal notices of penalties from relevant authorities. According to our PRC legal adviser, Jingtian & Gongcheng, there are no relevant laws or regulations in the PRC requiring apparel manufacturers and distributors to recall products that do not meet certain quality standards. Nevertheless, upon discovery of this incident we immediately ordered Red Kids E-commerce to cease the sales of Product One and we requested that it return the products in question that remained unsold. According to our communication with Red Kids E-commerce, all of Product One were sold to end customers. As of the Latest Practicable Date, neither Red Kids E-commerce nor end customers returned any of Product One upon receiving our request. In view of the foregoing and the Quality Control Confirmation obtained, our PRC legal adviser, Jingtian & Gongcheng, is of the view that the risk of us being penalized by the relevant authorities for this incident is relatively low. Under the relevant PRC laws and regulations, we have the right to demand indemnification when we incur losses resulting from products that do not meet national quality standards. As we have neither been fined by relevant regulatory authorities nor received any customer complaints in relation to this incident, we did not request the relevant OEM to indemnify us for this incident. As we have not previously had any notification of non-compliance with regard to the incident above, the Directors are of the view that the above incident is an isolated case. As of the Latest Practicable Date, we have not been fined by relevant regulatory authorities and we have not received any customer complaints in relation to this incident. Thus, we currently have no reason to believe that the reputation of our products suffered from this incident. However, in the event that we are fined for this incident, according to our PRC legal adviser, Jingtian & Gongcheng, we may be

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subject to a fine that includes the sales revenue from this batch of Product One and a penalty of no more than three times the sales revenue from this batch of Product One, which amounts to no more than RMB2.4 million.

According to our PRC legal adviser, Jingtian & Gongcheng, under the PRC Product Quality Law (產品質量法), the PRC Tort Law (侵權責任法) and relevant laws and regulations, we are liable for medical and other expenses resulting from adverse effects to our end consumers' health caused by our products that do not meet national quality standards. According to Jingtian & Gongcheng, there are no relevant laws or regulations in the PRC specifying our maximum product liabilities or litigation exposures relating to Product One should our end customers bring civil lawsuits against us. Thus, we are not able to quantify our maximum product liabilities or litigation exposures in relation to claims arising from Product One. Our maximum liability relating to Product One will be determined by the number of claims brought against us and the amount of damage claimed under each lawsuit. Furthermore, according to our PRC legal adviser, Jingtian & Gongcheng, when a claim or lawsuit is brought against us in relation to Product One (i) the individual who brought the claim bears the burden to prove that (a) Product One was defective under relevant PRC laws; (b) the individual suffered severe adverse health effects; and (c) the defect of Product One was the cause of the severe adverse effects on the individual's health. Based on the First Quality Control Incident Confirmations, regular usage of Product One would not lead to severe adverse effects on one's health. The likelihood that an end customer will be able to prove that he or she suffered severe adverse health effects as result of regular usage of Product One is remote. Our PRC legal adviser, Jingtian & Gongcheng, is of the view that provided that the customer could not be able to prove that he or she suffered severe adverse health effects as result of regular usage of Product One, the probability of any successful claim against us and the likelihood that relevant PRC courts will hold us liable for the claims relating to Product One is low. Our Controlling Shareholders have agreed to indemnify us against all claims relating to Product One.

Second Quality Control Incident

The second incident involved a batch of 498 units of our boy's knitted jacket (Product Number: RQF113017) ("Product Two") and a batch of 8,848 units of our boy's hoodie (Product Number: 1230418) ("Product Three"). Our attention was first drawn to this incident on May 30, 2013 following China Quality Inspection Net's (中國質檢網) posting on its website that according to the result of examinations organized by Jilin Bureau of Industry and Commerce (吉林省工商局) in April 2013, Product Two did not meet the fiber content analysis, instructions guidance and the durability of fabric color tests under the relevant national quality standards, while Product Three did not meet the fiber content analysis and the durability of fabric color test under the relevant national quality standards. Under the Measures for Monitoring the Quality of Commodities in Circulation (流通領域商品質量監測辦法), provincial-level bureaus of industry and commerce are responsible for organizing and leading quality control inspections of the products sold within their respective jurisdictions, and because Product Two and Product Three were sold in Jilin Province, they were subject to Jilin Bureau of Industry and Commerce's inspections. Jilin Bureau of Industry and Commerce provided us neither with a notification with regard to the inspection of these products nor did they involve us during the inspection process. In addition, we did not receive the corresponding inspection reports for Product Two and Product Three.

Upon discovery of this incident on May 30, 2013, we immediately contacted all distributors in Jilin Province and requested that they cease sales of Product Two and Product Three on the same day. We sold Product Two and Product Three to our distributors in Jilin province in 2012, and according to our communication with our distributors in Jilin Province, Product Two and

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Product Three have subsequently been sold to end customers. As of the Latest Practicable Date, none of our distributors in Jilin Province or end customers returned any of the products in question. In addition, on May 30, 2013, we sent to all of our distributors and their sub-distributors in Jilin Province an instruction to place in their respective retail outlets our written notice with regard to the acceptance of returns of Product Two and Product Three. As of the Latest Practicable Date, we have not withdrawn the acceptance for the returns of Product Two and Product Three and according to our communication with our distributors in Jilin Province, no customer has returned the products in question to our distributors in Jilin Province or their sub-distributors. According to our PRC legal adviser, Jingtian & Gongcheng, there are no relevant laws or regulations in the PRC requiring apparel manufacturers and distributors to recall products that do not meet certain quality standards.

Product Two had passed all quality control inspections conducted by the National Textiles and Fashion Quality Control Inspection Center in Fujian (國家紡織服裝產品質量監督檢驗中心(福建)) on May 4, 2011. Furthermore, Product Three had passed the quality control inspections conducted by the Zhong Fang Xie (Beijing) Quality Control Technology Services Company, Ltd. (中紡協(北京)檢驗技術服務有限公司) on June 26, 2012. Both the National Textiles and Fashion Quality Control Inspection in Fujian (國家紡織服裝產品質量監督檢驗中心(福建)) and Zhong Fang Xie (Beijing) Quality Control Technology Services Company, Ltd. (中紡協(北京)檢驗技術服務有限公司) are certified third-party inspection agencies qualified to issue quality inspection reports that can be recognized nationwide. According to our PRC legal adviser, Jingtian & Gongcheng, (i) the examinations conducted by the National Textiles and Fashion Quality Control Inspection in Fujian (國家紡織服裝產品質量監督檢驗中心(福建)) and Zhong Fang Xie (Beijing) Quality Control Technology Services Company, Ltd. (中紡協(北京)檢驗技術服務有限公司) were conducted on a sampling basis; (ii) according to the reports prepared by the two agencies our products that were taken for sampling inspection have all met the relevant national quality standards. In addition, we have not received any formal notices or penalties from Jilin Bureau of Industry and Commerce or other relevant quality control authorities since the release of the examination result in May 2013. In view of the foregoing and given that the two products comply with the relevant mandatory national quality standards and the Quality Control Confirmation obtained, our PRC legal adviser, Jingtian & Gongcheng, believes that we are not likely to be penalized for this incident. We do not believe we need the relevant OEM to indemnify us as we have neither been fined by relevant regulatory authorities nor received any customer complaints in relation to this incident. Our Directors are of the view that this was an isolated incident. Due to the aforementioned, we currently have no reason to believe that the reputation of our products suffered from this incident. However, in the event that we are fined for this incident, according to our PRC legal adviser, Jingtian & Gongcheng, we may be subject to a fine that includes the sales revenue from Product Two and Product Three and a penalty of no more than three times the amount of sales revenue for each batch of products, which amounts to no more than RMB3.0 million.

Enhanced Quality Control Measures

In response to the two incidents described above, we are enhancing our quality control procedures by increasing the frequency of quality control inspections and enlarging the sampling size of raw materials, semi-finished products and final products inspections. Based on the enhanced internal control procedures that we implemented at the end of November 2013, our sampling size for quality control inspections has increased by up to 50% when compared to the sampling size prior to the occurrence of the two incidents. For instance, prior to the two incidents, we sampled not less than 100 units of production batches that included not more than 5,000 units. Following our enhanced quality control measures, we plan to sample not less than 150 units per every production batch that is not larger than 5,000 units. In addition, to enhance supervision of

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the above quality control procedures, we intend to also increase the frequency of inspections conducted by our senior quality control personnel to ensure that all of our products, whether manufactured in-house or procured from OEMs, comply with the quality control thresholds under GB 18401-2010 National General Safety Technical Code for Textile Products (國家紡織產品基本安全技術規範 (GB 18401-2010)) as required by relevant PRC product quality regulations. Prior to the two incidents, we required that our senior quality control personnel inspect not less than three times each batch of products during the production process, whether the products are manufactured in-house or procured from OEMs. Commencing from end of November 2013, we require that our senior quality control personnel inspect the production of each batch of products not less than five times. As of the Latest Practicable Date, following the implementation of our enhanced quality control procedures, we have not identified any quality related issues for our products. We require all of our products to pass the relevant inspections under GB 18401-2010 National General Safety Technical Code for Textile Products (國家紡織產品基本安全技術規範 (GB 18401-2010)) prior to being delivered to our distributors both before and after the incidents. We believe that our enhanced quality control process has been effective because we have not received further quality control complaints and we were awarded the “Excellent Enterprise for Trustworthy Quality in China” (全國質量誠信優秀企業) from the China Quality Inspection Association (中國質量檢驗協會) in 2013.

The Joint Sponsors have (i) reviewed the enhanced quality control procedures adopted by the Company at the end of November 2013; (ii) reviewed the qualification and scope of the agreed-upon procedures work performed by the internal control consultant engaged by the Company; and (iii) reviewed the factual findings of the internal control consultant on the results of the procedures performed on the relevant quality control procedures. Having considered amongst others, the internal control consultant’s findings and based on discussions with our management, the Joint Sponsors are of the view that the Group’s enhanced quality control procedures adopted by the Company at the end of November 2013 are adequate and effective.

OUR CUSTOMERS

As of June 30, 2013, our five largest customers were all our distributors, which were all primarily engaged in the sales of children’s products. We have more than three years of relationship on average with our top five customers. Sales to our five largest customers accounted for approximately 32.0%, 35.2%, 46.3% and 45.9% of our total turnover for the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively, while sales to our largest customer accounted for approximately 7.0%, 7.6%, 16.9% and 14.7% of our total turnover for those respective periods.

Except in the case of Red Kids E-commerce, in which our Director, Mr. Ding Peiyuan, held a 60% interest until July 25, 2012, none of our Directors, their associates, or any shareholders who, to the knowledge of our Directors, owns more than 5% of our issued share capital, had any interest in any of our top five customers during the Track Record Period.

INVENTORY CONTROL AND LOGISTICS

We recognize that controlling the level of inventory is important to our overall operational efficiency and cost control. Based on the purchase orders received at our sales fairs, we are able to anticipate the demand for our products in advance and plan ahead for the production of the goods and the orders we will place with our OEMs.

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We closely monitor inventories of our distributors, including inventory levels, inventory age and inventory composition. We conduct monthly visits of retail outlets operated by our major distributors, including our top ten distributors measured by sales revenue during the Track Record Period, and their sub-distributors and we require our major distributors, including our top ten distributors measured by sales revenue during the Track Record Period, to submit monthly inventory reports. For our other distributors and their sub-distributors, we conduct the same procedures on a quarterly basis and we require the distributors to submit quarterly inventory reports. The retail outlets we visit are selected randomly as we believe random sampling would eliminate sampling bias and thus enhance the accuracy of the sales and inventory data collected. We also conduct spot checks and physical stock counts on the inventory level of our distributors. In addition, we regularly communicate with the management of department stores on the sales performance of department store concessions under our “redkids” brand to confirm the accuracy of our sales data for such distributors. Furthermore, to help our distributors lower their inventory levels, we provide them with guidance to ensure that they would not over-purchase and advise them on when to commence promotional activities.

Based on (i) the fact that during the Track Record Period, (a) we had not recorded any sales return from the distributors, (b) there was no provision required for bad debts, and (c) our trade receivables at the end of each reporting period during the Track Record Period had been fully settled; and (ii) reference to monthly/quarterly visits to distributors and sub-distributors and review of monthly/quarterly inventory reports and quarterly sales reports of distributors, our Directors are of the view that there were no accumulations of inventory at the distributor and sub-distributor levels.

We generally deliver our products to our distributors through third-party logistics companies engaged by our distributors. These logistics companies bear the risks and losses associated with the delivery of our products.

AWARDS AND RECOGNITION

Our brand has won various awards and recognitions in China since 2005, as evidenced by the following awards and certificates:

<u>Year</u>	<u>Award/Certificate</u>	<u>Awarding Body</u>
2013	“Excellent Enterprise for Trustworthy Quality in China” (全國質量誠信優秀企業)	China Quality Inspection Association (中國質量檢驗協會)
2013	“Top Ten Brands for Children’s Apparel in China” (中國十大童裝品牌)	China National Garment Association (中國服裝協會), an organization of designers, brand owners and manufacturers in the apparel industry in China
2011	“China Color Application Award” (中國色彩應用獎)” “The Top Fashion Kids’ Wear Brand of China” (年度最具流行魅力童裝品牌)	China Fashion & Color Association (中國流行色協會)
2010	“China Fashionable Product Release Base for Children’s Garments” (中國童裝時尚新品發佈基地)	China Fashion & Color Association (中國流行色協會)

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Year	Award/Certificate	Awarding Body
2009	“Fujian Province Famous Brand” (福建省著名商標)	Administration for Industry and Commerce of Fujian province (福建省工商行政管理局)
2005	“China Famous Brand of Export To Be Developed Emphatically” (重點培育和發展- 中國出口名牌) for 2005 and 2006	MOFCOM

RISK MANAGEMENT MEASURES

We have written risk management policies and guidelines in place prior to Listing. The following table sets out some of the primary risks our business faces and our existing risk management measures:

Risk Identified	Our Risk Management Measures and Procedures
Protection of product design	<ul style="list-style-type: none"> We require our designers to sign confidentiality and non-competition agreements upon joining our Company.
Limited control over our distributors	<ul style="list-style-type: none"> We have a standardized distributor selection process, in which more important distributors must meet more stringent standards. We train our sales and marketing team to conduct rigorous evaluations of potential distributors. We have a system of accessing the credit history of our distributors to ensure that they are of good financial health.
Quality of outsourced production	<ul style="list-style-type: none"> We have established internal standards for selecting and evaluating our OEMs. We require our OEMs to keep our commercial secrets confidential and hold them liable for all financial losses should they disclose our commercial secrets to any third party under any circumstance without our prior consent. We inspect products at multiple stages in the production process, including pre-production prototypes, fabric printing and embroidery as well as final products.

There are various other risks to our business and industry. For further details, please refer to the section headed “Risk Factors” in this prospectus.

CORPORATE GOVERNANCE

Our Company recognizes the importance of good corporate governance in management and internal control procedures and will adopt the following measures to safeguard the interests of our Shareholders:

- (a) our Articles provide that, except in certain limited circumstances, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in

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which such Director or any of his associates have a material interest, nor shall such Director be counted in the quorum present at the meeting. As such, our Controlling Shareholders shall not vote or be counted in the quorum in respect of any proposals involving the Controlling Shareholders or any of their affiliates;

- (b) we are committed to the principle that our Board should include a balanced composition of executive and independent non-executive Directors. We believe our independent non-executive Directors are of sufficient caliber, are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial, external opinion to protect the interests of our public shareholders;
- (c) we intend to ensure that any transaction that is proposed between us and connected persons will comply with Chapter 14A of the Listing Rules including, where applicable, the announcement, reporting and independent shareholders' approval requirements of those rules; and
- (d) in addition, if our independent non-executive Directors consider it necessary or desirable, they may also engage professional advisers at the cost of our Company to advise them on matters relating to any non-competition agreement or on any business opportunities which may be referred to us by our Controlling Shareholders.

Compliance Adviser

Our Company will appoint RHB OSK Capital Hong Kong Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise our Company on the following matters:

- (a) the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (c) where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where its business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- (d) where the Stock Exchange makes an inquiry of our Company regarding unusual movement in the price or trading volume of the shares of our Company.

The term of the appointment shall commence on the Listing Date and end on the date on which our Company distributes its annual report in respect of its financial results for the first full financial year commencing after the Listing Date. Such appointment may be subject to extension by mutual agreement.

COMPETITION

The PRC market for children's apparel is fragmented and highly competitive, but the demand for mid-to-high end children's apparel has been growing steadily in recent years, in line with economic growth in the PRC. We face competition from several domestic manufacturers of

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children's apparel in our regional markets, such as Balabala, Goodbaby, Dadida and Annil Kidswear. We believe that we compete on the basis of brand image, design, product mix, quality, price, end customer service and the breadth of our distribution network. For a description of some of the risks associated with the competition we face, see "Risk Factors — Risks Relating to Our Business and Our Industry — We operate in a fragmented and highly competitive market. If we fail to compete effectively, our market share and profit margins may decline."

EMPLOYEES

As of June 30, 2013, we had a total of 593 full-time employees in the PRC. The following table sets forth a breakdown of our employees by department as of June 30, 2013:

	<u>Number of Employees</u>
Management and administration	43
Research and development	40
Sales and marketing	71
Finance and accounting	27
Production, procurement and quality control	<u>412</u>
Total	<u>593</u>

Remuneration

We incurred staff costs of approximately RMB33.5 million, RMB34.2 million, RMB34.9 million and RMB13.0 million for the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively, representing 10.2%, 8.7%, 6.7% and 5.1% of our turnover for those periods, respectively. We review the performance of our employees annually, the results of which are used in his or her annual salary review and promotion appraisal.

Our senior management is also entitled to participate in our Pre-IPO Share Option Schemes, the details of which are more fully set out in Appendix V of this prospectus. We believe that by offering our key employees a shareholding stake in us, we are aligning their interest with that of ours, thereby providing our key employees with additional incentives to improve our performance.

We consider our relationship with our employees to be good. We have not experienced any strikes, work stoppages or significant labor disputes in the past and have not experienced any significant difficulties in recruiting or retaining staff.

Training

We are committed to employee development and have implemented various programs for the development of our employees. All our newly recruited employees are required to participate in training programs to learn basic information about our culture and brand and the skills needed in his or her particular job. We provide employees with training tailored to his or her position in our Company. Training programs for our production team cover topics that relate to production know-how, safety, product quality and rules and regulations. In addition, members of our management team receive training in topics such as management skills, technical knowledge and company operations. Furthermore, we require our senior management team members to receive training in management strategies. We have updated and intend to continue to improve our employee training curriculum according to our business needs. For instance, in light of our increased outsourced production, we launched our first training program regarding the production of children's apparel by OEMs in 2013. We also place particular importance on the training of sales personnel in retail

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outlets operated by our distributors and their sub-distributors. We believe that such training equips them with the skills and knowledge to provide better, more uniform service to our end consumers.

INTELLECTUAL PROPERTY RIGHTS

Trademarks and Other Intellectual Properties

As of the Latest Practicable Date, we have registered 38 trademarks in China and three trademarks in countries and regions outside China for our “redkids” brand under different classes. As of the Latest Practicable Date, we have also applied for 13 additional trademarks of our “redkids” brand in China.

We have also entered into employment contracts, confidentiality agreements, non-compete agreements and cooperation agreements with our design and research and development personnel and the parties we cooperate with in design and research and development activities to protect our intellectual property rights.

In addition to intellectual property rights and trademarks, we rely on know-how, processes and other intellectual property rights in our operations. For further details of the intellectual property rights of the Group, please see the paragraph headed “C. Further Information about Our Business — 2. Intellectual property rights of our Group” in Appendix V to this prospectus.

PROPERTIES

Self-owned Properties

Land

As of the Latest Practicable Date, we held the State-owned land use right certificates to occupy three parcels of land in Quanzhou, Fujian Province, with a total site area of approximately 20,575.8 sq.m. As advised by our PRC legal adviser, Jingtian & Gongcheng, we have obtained all State-owned land use right certificates for the land we use and we are entitled to occupy, use, transfer, lease, pledge or otherwise dispose of the land use rights under applicable PRC laws and subject to the conditions stipulated by the mortgage contract concerning the land.

Buildings

As of the Latest Practicable Date, we held the building ownership certificates for buildings with an aggregate floor area of 18,786.6 sq.m. in Quanzhou, Fujian Province, which are mainly used for production, storage, staff quarters and ancillary purposes. As advised by our PRC legal adviser, Jingtian & Gongcheng, we have obtained all building ownership certificates for the buildings we own, and we are entitled to occupy, use, transfer, lease, pledge or otherwise dispose of the buildings under applicable PRC laws and subject to the conditions stipulated by the mortgage contract concerning the buildings.

We currently occupy a building in Quanzhou, Fujian Province with a total gross floor area of 5,486 sq.m., which we use as office space. We used the building prior to the completion of the final acceptance inspection for the building and we have subsequently completed the final acceptance inspection for this building as of November 2, 2013. Our PRC legal adviser, Jingtian Gongcheng has confirmed that we had received the Construction Work Planning Permits

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(建設工程規劃許可證) and Construction Work Commencement Permits (建築工程施工許可證) for the construction of this building. Pursuant to the Administrative Regulations on the Quality Management of Construction Engineering (建設工程質量管理條例), if a construction unit delivers a building which has not completed the inspection process required for the final acceptance to users, the users shall be ordered to stop using the building and the construction unit shall be subject to a penalty of 2-4% of the contractual price of the construction project. According to our PRC legal adviser, Jingtian & Gongcheng, the likelihood that we will be penalized by the relevant authority is remote as we have successfully completed the final inspection of this building. Our Directors confirm that the occurrence of the non-compliance was primarily due to their unfamiliarity with the relevant rules and regulations under PRC laws. We intend to use the building as office space in the future. According to our PRC legal adviser, Jingtian & Gongcheng, since we have successfully completed the final acceptance, there should be no material legal impediment for us to obtain the building ownership certificate for the relevant building. Based on our communication with the relevant authority, we currently expect to obtain the building ownership certificate for this building by March 2014.

In addition, we are in the process of constructing another building in Quanzhou, Fujian Province with a total gross floor area of 18,696 sq.m. We intend to use this building as storage space in the future.

According to a due diligence report issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited (“Jones Lang LaSalle”), production at our facility located at Quanzhou, Fujian Province, is a material part of our operation and substantially contributes to our turnover. As a result, Jones Lang LaSalle has identified it as material property. According to the investigation of Jones Lang LaSalle, as of December 31, 2012, none of our properties has a carrying amount over 1% (for properties having property activities) or 15% of the total assets. Thus, on this basis, we are not required under Chapter 5 of the Listing Rules to value or include in this prospectus any valuation report of our property interests.

Property to be acquired by our Group

Pursuant to a property pre-purchase agreement (the “Pre-purchase Agreement”) dated June 3, 2013 and entered into between Shanghai Fashitu Investment Group Limited (上海法詩圖投資集團有限公司, “Shanghai Fashitu”), an Independent Third Party, and Red Kids China, Red Kids China agreed to acquire from Shanghai Fashitu a building under construction situated at Shangzhifang Fashion Culture Creative Park, No.6066, Songze Avenue, Qingpu District, Shanghai with a gross floor area of 10,709.6 sq.m. (“Shangzhifang Fashion Culture Creative Park”). According to Shanghai Fashitu, the Shangzhifang Fashion Culture Creative Park will be developed in three phases, and it targets to host domestic and international apparel companies and brands to foster an environment that promotes creativity. We intend to utilize this building to set up our research and development center in Shanghai.

The relevant details relating to the above property required to be disclosed under the Listing Rules are as follows:

Name of the vendor: Shanghai Fashitu. Founded in 2004, Shanghai Fashitu is involved in the real estate business, including the selling and leasing of real estate properties.

Address of the vendor: Room 301, Building 2, No.6066 Songze Avenue, Shanghai

Total consideration payable to the vendor and payment schedule: RMB115.0 million (45% of the total consideration upon signing of the Pre-purchase Agreement, 15% by December 31,

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2013, 10% by April 30, 2014, 10% by June 30, 2014 and the remaining 20% upon satisfaction of inspection for acceptance and transfer of the title of the building)

Particulars of transactions relating to the building under construction completed within the two preceding years in which any vendor or any person who is or was at the time of the transaction a promoter or a Director or proposed Director and had any interest direct or indirect: Nil

As of the Latest Practicable Date, we have paid approximately RMB51.8 million towards the total consideration payable. We intend to use approximately RMB63.2 million, from our internal resources, to finance the balance of the consideration payable.

According to our PRC legal adviser, Jingtian & Gongcheng, the Pre-Purchase Agreement does not constitute a legally binding obligation for Shanghai Fashitu to deliver the building to the Group. Shanghai Fashitu will be responsible for the construction of the building, and according to the Pre-purchase Agreement, we are required to pay the outstanding installments by December 31, 2013, April 30, 2014 and June 30, 2014. However, according to our PRC legal adviser, Jingtian & Gongcheng, we have the right to dissolve the Pre-purchase Agreement and are entitled to demand that Shanghai Fashitu return the amount paid by the Group and indemnify us for relevant losses if Shanghai Fashitu is unable to deliver the building to the Group, or fails to obtain or transfer the title of the building as agreed. We decided to enter into Pre-Purchase Agreement with Shanghai Fashitu primarily because of the location of the property and the commercial terms of the transaction, including price, which we consider to be reasonable. Furthermore, Shanghai Fashitu has provided us the construction commencement permit with the address of No. 6066, Songze Avenue, Qingpu District, Shanghai and confirmed that such construction commencement permit covered the building under the Pre-Purchase Agreement. According to Shanghai Fashitu, it has contracted to sell/lease approximately 80% of the area of phase one of Shangzhifang Fashion Culture Creative Park. Occupants of the properties located in phase one include other established PRC apparel brands and companies. Our research and development center will be located in the phase one area, which is expected to be delivered in August 2014.

According to the Pre-purchase Agreement, Shanghai Fashitu Investment Group Co., Ltd. (上海法詩圖投資集團有限公司) is scheduled to enter into a formal purchase agreement with us by October 2014.

Leased properties

As of the Latest Practicable Date, we have also leased 2 properties, with a total gross floor area of 946 sq.m. in the PRC. Our leased properties were located in the Changning and Qingpu Districts of Shanghai and were used as office space.

ENVIRONMENTAL AND SAFETY MATTERS

We are subject to PRC environmental laws and regulations, which include the Environmental Protection Law of the PRC, Law of the PRC on the Prevention and Control of Water Pollution, Law of the PRC on the Prevention and Control of Atmospheric Pollution, Law of the PRC on the Prevention and Control of Pollution From Environmental Noise and Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste. These laws and

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regulations govern a broad range of environmental matters, including air pollution, noise emissions and water and waste discharge. During the Track Record Period, we did not receive any material claim from either the government or any third party relating to any liability arising or relating to environmental or safety matters. Our cost of compliance with the applicable rules and regulations during the Track Record Period was RMB4,000, RMB3,000, RMB2,000 and RMB200 for the three years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013. We expect our cost of compliance to be less than RMB10,000 per year beginning in 2014.

INSURANCE

Our insurance coverage includes personal insurance for our employees and properties and car insurance. We generally do not maintain product liability insurance for our products, which is in line with the general practice in the PRC. During the Track Record Period, we did not receive any material claim from our customers or end customers relating to any liability arising from or relating to the use of our products.

LITIGATION AND LEGAL COMPLIANCE

As of the Latest Practicable Date, we were not involved in any outstanding litigation, arbitration or claim of material importance, and no litigation, arbitration or claim is known to our Directors to be pending or threatened by or against us, which would have a material and adverse effect on our business, financial condition, results of operations or prospects.

As of the Latest Practicable Date, our PRC legal adviser, Jingtian & Gongcheng, and our Directors have confirmed that we have complied with applicable PRC laws and regulations in all material aspects, and have obtained all material licenses, approvals, permits and certificates from the appropriate regulatory authorities for our business operations in the PRC. We intend to engage our current legal advisers both before and on an on-going basis after the Listing.

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NON-COMPLIANCE

Non-compliance relating to PRC regulations

<u>Event of non-compliance</u>	<u>Reason for non-compliance</u>	<u>Rectification action taken and latest status</u>	<u>Legal consequence and financial impact including potential maximum penalty</u>	<u>Measures to prevent future breach and ensure on-going compliance</u>
<p>As of June 30, 2013, we leased an office with a gross floor area of 700 sq.m. in Changning District, Shanghai and another office with a gross floor area of 246 sq.m. in Qingpu District, Shanghai, both of which were used as our office space. According to our PRC legal adviser, Jingtian & Gongcheng, we may be required by the relevant PRC authorities to register our lease contracts, which we have not yet been arranged.</p>	<p>As of the Latest Practicable Date, one of our landlords could not provide us with the relevant building ownership certificates and as a result, we could not register our lease contracts with the relevant PRC authorities.</p>	<p>We have requested that the landlord of our office with a gross floor area of 700 sq.m. to provide the relevant building ownership certificate. In addition, we have commenced the process of searching for a suitable place in the event that we are unable to complete the registration of our lease agreement and the need for relocation arises.</p> <p>We have obtained from the landlord the building ownership certificate of the office with a gross floor area of 246 sq.m. and are filing for the registration of the lease agreement. In addition, we have commenced the process of searching for a suitable place in the event that we are unable to complete the registration of our lease agreement and the need for relocation arises.</p>	<p>The penalty for failing to register our lease contract is not less than RMB1,000 and not more than RMB10,000 per incident.</p> <p>According to our PRC legal adviser, Jingtian & Gongcheng, our maximum potential liabilities arising from such lease registration irregularities amount to RMB20,000.</p>	<p>We will request for building ownership certificates prior to leasing properties in the future.</p>

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Event of non-compliance	Reason for non-compliance	Rectification action taken and latest status	Legal consequence and financial impact including potential maximum penalty	Measures to prevent future breach and ensure on-going compliance
<p>As required under the Regulation of Insurance for Labor Injury (工傷保險條例), the Provisional Insurance Measures for Maternity of Employees (企業職工生育保險試行辦法), the Interim Regulation on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例), the Interim Provisions on Registration of Social Insurance (社會保險登記管理暫行辦法) and the Social Insurance Law (社會保險法), we are required to provide our employees in the PRC with welfare schemes covering the “Mandatory Social Insurance”. For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, we did not pay the requisite contribution for Mandatory Social Insurance for approximately 950, 950, 820 and 620 of our employees in the PRC, respectively.</p>	<p>Due to practical difficulties in making contributions for employees with short-term employment and high turnover rate, we did not make all contributions as required under the Mandatory Social Insurance. In addition, many of our employees did not wish to participate in Mandatory Social Insurance because they came from other provinces.</p>	<p>We have received a confirmation letter dated July 26, 2013 from the Human Resources, Labour and Social Security Bureau of Quanzhou City (泉州市人力資源和社會保障局), the competent and responsible authority in Quanzhou, Fujian Province with respect to our employee social welfare scheme, stating that we have not been subject to any administrative punishment as a result of any breach of the applicable laws and regulations on Mandatory Social Insurance. According to the PRC Social Insurance Law (社會保險法), social security bureaus at or above the county level are responsible for the administration of social insurance within their jurisdiction. Thus, according to our PRC legal adviser, Jingtian & Gongcheng, the Labor and Social Security Bureau of Quanzhou City is the competent authority to issue this confirmation, and this confirmation should not be challenged by higher level authorities.</p>	<p>For our unpaid contribution to the Mandatory Social Insurance accrued prior to the effectiveness of the Social Insurance Law of the PRC on July 1, 2011, relevant authorities may require us to pay the outstanding amount within a prescribed time limit. If we fail to make the overdue contribution within such time limit, an additional late payment penalty at daily rate of 0.2% of the outstanding amount may be imposed.</p> <p>For our unpaid contribution to the Mandatory Social Insurance accrued after July 1, 2011, relevant authorities may require us to pay the outstanding amount within the prescribed time limit with an additional late payment penalty at the daily rate of 0.05% from the due date. If we fail to make the overdue contribution within such time limit, the relevant authorities may also impose a fine on us equal to an amount between 100% and 300% of the total amount of the overdue contribution. We have made provisions for the accrued but unpaid social insurance</p>	<p>We are in the process of rectifying our internal control measures in relation to contributions to the Mandatory Social Insurance and intend to make contributions for any new employees to be employed going forward. We intend to raise our employees’ awareness with regard to Mandatory Social Insurance through enhanced communications with them. We will settle the unpaid social insurance with any employee who demands such payment in the future.</p> <p>As approved by the relevant authority, we are in the process of rectifying this non-compliance by making contributions for our existing employees. We expect the coverage rate of our employees to reach 30% and 70% by the end of 2013 and 2014, respectively, and we intend to have full coverage for our employees by end of 2015. We intend to rectify this non-compliance over three years because the relevant authority may only handle the registration and</p>

BUSINESS

<u>Event of non-compliance</u>	<u>Reason for non-compliance</u>	<u>Rectification action taken and latest status</u>	<u>Legal consequence and financial impact including potential maximum penalty</u>	<u>Measures to prevent future breach and ensure on-going compliance</u>
		As of the Latest Practicable Date, we have not received any notification from any government authorities alleging that we have not fully contributed to the Mandatory Social Insurance.	and housing fund contributions which amounted to approximately RMB6.5 million as of June 30, 2013. Our PRC legal adviser, Jingtian & Gongcheng, are of the view that the risks of the local governmental authority demanding outstanding payments or imposing any penalty on us with respect to our employee Mandatory Social Insurance are low.	accept the contributions in batches spread over three years.
According to the Regulations on Management of Housing Fund (住房公積金管理條例) and relevant regulations, we are generally required under the applicable PRC laws and regulations to provide our employees in the PRC with welfare schemes covering housing funds and housing benefits. For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, we did not pay the requisite contributions for housing fund for approximately 950, 950, 820 and 620 of our employees in the PRC, respectively.	Due to difficulties in making contributions for employees with short-term employment and high turnover rate, we did not make all contributions as required under the Regulations on Management of Housing Fund. In addition, many of our employees did not wish to participate in housing benefits because they came from other provinces.	We have received a confirmation letter dated July 30, 2013 from the Housing Fund Administration Centre of Quanzhou City (泉州市住房公積金管理中心) confirming that (i) we fully complied with the laws, regulations, requirements and standards on housing funds since our inception; and (ii) we have not been subject to any administrative punishment as a result of any breach of the applicable laws and regulations on housing funds. According to the Administrative Regulations on the Housing Provident Fund (住房公積金管理條例), city-level housing provident fund administration	Our PRC legal adviser, Jingtian & Gongcheng, has advised us that in the event that the relevant authorities demand that we pay our unpaid housing fund contributions, we shall be required to make such payments, and if we do not do so within the prescribed time limit, the relevant authorities may apply for an order for payment from the relevant PRC court. We have made provisions for accrued but unpaid social insurance and housing fund contributions which amounted to approximately RMB6.5 million as of June 30, 2013. Our PRC legal adviser, Jingtian & Gongcheng, is of	We are in the process of implementing our internal control measures in relation to contributions for housing fund and intend to make necessary contributions for any new employees to be employed going forward. We intend to raise our employees' awareness with regard to housing benefits through enhanced communications with them. We will settle the unpaid housing fund contribution with any employee who demands such payment in the future. As approved by the relevant authority, we are in the process of rectifying this

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<u>Event of non-compliance</u>	<u>Reason for non-compliance</u>	<u>Rectification action taken and latest status</u>	<u>Legal consequence and financial impact including potential maximum penalty</u>	<u>Measures to prevent future breach and ensure on-going compliance</u>
		<p>centers are responsible for the administration of housing provident fund. Thus, according to our PRC legal adviser, Jingtian & Gongcheng, the Housing Fund Administration Centre of Quanzhou City is the competent authority to issue this confirmation, and this confirmation should not be challenged by higher level authorities.</p> <p>As of the Latest Practicable Date, we have not received any notification from any government authorities alleging that we have not fully made housing fund contributions.</p>	<p>the view that the risk of the local governmental authority demanding outstanding payments or imposing any penalty on us with respect to our housing fund is low.</p>	<p>non-compliance by making contributions for our existing employees. We expect the coverage rate of our employees to reach 25% and 70% by the end of 2013 and 2014, respectively, and we intend to have full coverage for our employees by end of 2015. We intend to rectify this non-compliance over three years because the relevant authority may only handle the registration and accept the contributions in batches spread over three years.</p>

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Non-compliance relating to the Companies Ordinance

During the preparation for the Listing, we discovered that Red Kids HK, a subsidiary of our Company, was not in compliance with the requirements under section 111 of the Companies Ordinance to convene annual general meetings and section 122 of the Companies Ordinance to lay the annual audited accounts before its shareholders at its annual general meetings. We set out below a summary of the non-compliance incident:

<u>Event of non-compliance</u>	<u>Reason for the non-compliance</u>	<u>Rectification action taken and latest status</u>	<u>Legal consequence and financial impact including potential maximum penalty</u>	<u>Measures to prevent future breach and ensure on-going compliance</u>
<p>Red Kids HK was incorporated in Hong Kong as a limited liability company on July 29, 2005.</p> <p>Red Kids HK failed to convene annual general meetings and lay the annual audited accounts before its shareholders at its annual general meetings since incorporation up to the financial year ended December 31, 2012.</p>	<p>During relevant times, the directors of Red Kids HK were Mr. Ding and Mr. Ding Peiyuan. Mr. Ding and Mr. Ding Peiyuan have each confirmed that the occurrence of the non-compliance was primarily due to their unfamiliarity with the relevant rules and regulations under Hong Kong laws, and their reliance on the advice from the statutory auditors of Red Kids HK, who were then also responsible for the company secretarial matters of Red Kids HK on the relevant requirements.</p>	<p>Application was made to the High Court of Hong Kong by Red Kids HK on July 17, 2013 for an order to extend the period of nine months to lay the annual audited accounts before its shareholders to within 28 days from the date of such court order. Such order was granted by the High Court of Hong Kong on August 21, 2013.</p> <p>On September 16, 2013, Red Kids HK held a general meeting in accordance with the aforesaid court order, on which the annual audited accounts of Red Kids HK were laid.</p>	<p>A company and each officer of the company who is in default of section 111 of the Companies Ordinance shall be liable to a fine of up to HK\$50,000.</p> <p>Each director of a company which is in default of section 122 of the Companies Ordinance shall be liable to a fine of up to HK\$300,000 and, if the court is of the opinion that such offense was committed willfully, up to 12-month imprisonment.</p> <p>No provision has been made in the consolidated financial statements of our Group as after obtaining the order from the High Court of Hong Kong and convening the general meeting of Red Kids HK pursuant to such court order, the non-compliances with sections 111 and 122 of the Companies Ordinance have effectively been rectified as of the Latest Practicable Date.</p>	<p>To avoid future re-occurrence of such non-compliance incidents, we will, prior to the Listing, engage Hong Kong legal advisers to continue to provide legal advice to us after the Listing and keep us updated about our on-going obligations and duties under the relevant laws of Hong Kong, and provide training to our Directors on the latest developments of various compliance matters that relate to us, including the Listing Rules and the Companies Ordinance after the Listing, from time to time as and when needed. Furthermore, our Company has engaged Mr. Ng Cheuk Him, who possesses the qualifications of a certified public accountant and an associate member of the Hong Kong Institute of Chartered Secretaries, as the Company Secretary. Mr. Ng will be in charge of, among other matters, ongoing compliance</p>

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<u>Event of non-compliance</u>	<u>Reason for the non-compliance</u>	<u>Rectification action taken and latest status</u>	<u>Legal consequence and financial impact including potential maximum penalty</u>	<u>Measures to prevent future breach and ensure on-going compliance</u>
				with Hong Kong company secretarial affairs of our Group.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalization Issue and the Global Offering, the Controlling Shareholders will together control the exercise of voting rights of more than 30% of the Shares eligible to vote in the general meeting of our Company (assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon exercise of options granted under the Pre-IPO Share Option Scheme or options which may be granted under the Share Option Scheme). Except for their respective interests in our Company, the Controlling Shareholders had no interest in any other companies as of the Latest Practicable Date, which (i) held interests in our business during the Track Record Period and ceased to hold such interests after the Corporate Reorganization; or (ii) may, directly or indirectly, compete with our Group's business.

DISPOSAL OF THINK WISE HOLDINGS AND THINK WISE SHANGHAI BY THE CONTROLLING SHAREHOLDERS

Mr. Ding, one of our Controlling Shareholders, incorporated Think Wise Holdings Limited (華智實業(控股)有限公司, the “**Think Wise Holdings**”), an investment holding company incorporated under the laws of Hong Kong on June 16, 2011. Think Wise Holdings in turn established Think Wise (Shanghai) Apparels Co., Ltd. (華智(上海)服飾有限公司, the “**Think Wise Shanghai**”) in the PRC on November 3, 2011, with registered capital of HK\$50 million. At the time of establishment of Think Wise Holdings and Think Wise Shanghai, Mr. Ding's intention was to use Think Wise Shanghai to develop a distribution business for apparel outside of our Group in Shanghai area. The first installment of the registered capital of Think Wise Shanghai in the amount of HK\$10 million was contributed in December 2011.

However, due to fast development of our Group's business at the relevant time, Mr. Ding became almost fully engaged in the operation and management of our Group and the business development plan of Think Wise Shanghai has never materialized. After the contribution of the first installment of the registered capital to Think Wise Shanghai, no further capital was injected into Think Wise Shanghai.

In June 2013, in connection with our preparation of the proposed Listing, and with a view to avoid any potential competition between Think Wise Shanghai and our Group, Mr. Ding effected the disposal of his entire interests in Think Wise Shanghai by way of transferring the entire issued share capital in Think Wise Holdings to Mr. Shao Keqin (邵克勤), an Independent Third Party. Mr. Ding did not inject Think Wise Shanghai into our Group because from the beginning of 2013 up to the date of the abovementioned disposal, Think Wise Shanghai did not have any significant business activities, thus, Mr. Ding considered that there was no strategic value to inject Think Wise Shanghai into our Group and believed it more beneficial to dispose it and reallocate his financial resources. The total consideration involved was HK\$10 million, which was determined with reference to the then paid-up registered capital of Think Wise Shanghai, and was fully settled in June 2013. Think Wise Shanghai was engaged in the sales of children's apparel products of our Group and other menswear products. Think Wise Shanghai ceased the sales of our products in May 2012 due to Mr. Ding's full engagement in the operation and management of our Group. Our sales to Think Wise Shanghai amounted to nil, nil, RMB5.2 million and nil for each of the three years ended December 31, 2010, 2011 and 2012 and the period from January 1, 2013 up to June 27, 2013, being the completion date of the disposal, respectively. After the disposal and up to the Latest Practicable date, no sales were made by our Group to Think Wise Shanghai. Apart from the sales of our Group's children's apparel products, Think Wise Shanghai did not conduct any business activities that competed directly or indirectly with those of our Group.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Think Wise Shanghai did not record any revenue or profit for the year ended December 31, 2011 as it was not established until November 2011 and no business activities was conducted by Think Wise Shanghai in the same year. According to the audited financial statements of Think Wise Shanghai for the year ended December 31, 2012, its revenue and net loss amounted to approximately RMB14.8 million and RMB1.2 million, respectively. According to the unaudited financial statements of Think Wise Shanghai, for the period from January 1, 2013 up to June 27, 2013, being the completion date of the abovementioned disposal, its revenue and net loss amounted to approximately RMB87,000 and RMB274,000, respectively.

NON-COMPETITION UNDERTAKING OF THE CONTROLLING SHAREHOLDERS

The Controlling Shareholders have entered into the Deed of Non-competition in favor of our Company, pursuant to which the Controlling Shareholders have jointly and severally and irrevocably undertaken with our Company (for itself and for the benefit of its subsidiaries) that it or he would not, and would procure that its or his associates (except any members of our Group) would not, during the restricted period set out below, directly or indirectly, either on its or his own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of our Group from time to time (the “Restricted Business”).

The above non-competition undertaking does not apply to:

- (a) any interests in the shares of any member of our Group; or
- (b) interests in the shares of a company other than our Group which shares are listed on a recognized stock exchange provided that:
 - (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 5% of that company’s consolidated turnover or consolidated assets, as shown in that company’s latest audited accounts; or
 - (ii) the total number of the shares held by the Controlling Shareholders and/or its/his respective associates in aggregate does not exceed 5% of the issued shares of that class of that company and such Controlling Shareholders and/or its/his respective associates are not entitled to appoint a majority of the directors of that company and at any time there should exist at least another shareholder of that company whose shareholdings in that company should be more than the total number of shares held by the Controlling Shareholders and its/his respective associates in aggregate.

The “restricted period” stated in the Deed of Non-competition refers to the period during which (i) the Shares of our Company remain listed on the Stock Exchange; and (ii) in relation to each Controlling Shareholder, the relevant Controlling Shareholder or any of its/his associate still holds directly or indirectly an equity interest in our Company and (iii) the Controlling Shareholders and/or its/his respective associates jointly or severally are entitled to exercise or control the exercise of not less than 30% in aggregate of the voting power at general meetings of our Company.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to manage the conflict of interests arising from the competing business and to safeguard the interests of our Shareholders:

- (a) the independent non-executive Directors will review, on an annual basis, the compliance with the undertaking given by the Controlling Shareholders under the Deed of Non-competition and the results of such review will be disclosed in the annual reports of our Company;
- (b) any decision made in respect of the enforcement of the Deed of Non-competition, together with the relevant details and basis, will be disclosed in the annual reports of our Company;
- (c) our Company will disclose the matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the non-compete undertaking of the Controlling Shareholders under the Deed of Non-competition in the annual reports of our Company;
- (d) the Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed of Non-competition; and
- (e) the Controlling Shareholders will make an annual declaration on compliance with their undertaking under the Deed of Non-competition in the annual report of our Company.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Having considered the matters described above and the following factors, we believe that our Group is capable of carrying on its business independently of the Controlling Shareholders and its/his respective associates after completion of the Global Offering:

Management independence

Our Board comprises four executive Directors and three independent non-executive Directors. Mr. Ding, a Controlling Shareholder, is one of our executive Directors and the chairman of the Board.

Save as disclosed above, no other Controlling Shareholder holds any directorship in our Company. Each of our Directors is aware of his fiduciary duties as a Director of our Company which requires, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, we have an independent senior management team to carry out the business decisions of our Group independently.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that we are

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

capable of managing our business independently from the Controlling Shareholders following the completion of the Global Offering.

Operational independence

We have independent access to sources of supplies or raw materials for the production of our products as well as independent access to our distributors. We have also established a set of internal control procedures to facilitate the effective operation of our business.

We believe that we are capable of carrying on our business independently of the Controlling Shareholders and its/his respective associates. Our Directors confirmed that our Group will not enter into any transactions of similar nature with our connected persons and its/his associates after the Listing that will affect our operational independence.

Financial independence

Our Group has an independent financial system and makes financial decisions according to our Group's own business needs. Our Directors confirm that all financial assistance, including amounts due to or from, and loans or guarantees provided by our Controlling Shareholders, will be fully repaid or released upon the Listing and our Group's accounting and finance functions are independent of our Controlling Shareholders. Our Directors confirm that our Group does not intend to obtain any further borrowing from any of the Controlling Shareholders. Therefore, there is no financial dependence on the Controlling Shareholders.

CONNECTED TRANSACTIONS

During the Track Record Period, we have entered into a number of related party transactions, details of which are set out in Note 26 to Section B of the Accountant's Report in Appendix I to this prospectus.

CONNECTED PERSON

Xiamen Minghao

As at the Latest Practicable Date, Xiamen Minghao is owned as to 80% by Mr. Ding Peijie (丁培杰), a brother of each of Mr. Ding, Mr. Ding Peiyuan and Ms. Ding Lizhen, and 20% by Mr. Ding Rongyuan (丁榮源), a brother-in-law of Mr. Ding Peijie.

As Mr. Ding, Mr. Ding Peiyuan and Ms. Ding Lizhen are all Directors of our Company and Mr. Ding is also the chief executive officer and a substantial Shareholder of our Company, all of them are connected persons of our Group. Pursuant to Rule 14A.11(4)(b)(ii) of the Listing Rules, as Mr. Ding Peijie is a brother of each of Mr. Ding, Mr. Ding Peiyuan and Ms. Ding Lizhen and as Mr. Ding Peijie can exercise more than 50% of the voting power at general meetings of Xiamen Minghao, Xiamen Minghao is an associate of Mr. Ding, Mr. Ding Peiyuan and Ms. Ding Lizhen, and therefore, a connected person of our Group.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Xiamen Minghao is one of our distributor. Historically, we entered into distributorship agreement with Xiamen Minghao, the terms of which are identical with those of the distributorship agreement we enter into with our other independent distributors. In compliance with the requirements of Chapter 14A of the Listing Rules, on December 16, 2013, Xiamen Minghao and Red Kids China, an indirect wholly-owned subsidiary of our Company, entered into a distributorship agreement (the "Xiamen Minghao Distributorship Agreement"), pursuant to which Red Kids China agreed to provide children's apparel products to Xiamen Minghao. The Xiamen Minghao Distributorship Agreement is for a term from January 1, 2013 to December 31, 2015. We have the right to terminate the Xiamen Minghao Distributorship Agreement for cause at any time before its expiration subject to compliance with the Listing Rules.

For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our sales of children's apparel products to Xiamen Minghao amounted to approximately RMB20.0 million, RMB17.3 million, RMB17.1 million and RMB10.9 million, and accounted for approximately 6.1%, 4.4%, 3.3% and 4.3% of our total turnover during the same periods, respectively. The reason for the decrease in sales to Xiamen Minghao for the two years ended December 31, 2012 was because we adjusted the authorized geographical regions for Xiamen Minghao to establish retail outlets to sell our products, so as to avoid more than one distributor being authorized to sell our products in any of the major cities within Fujian Province. Compared to the sales amount of RMB7.1 million to Xiamen Minghao for the six months ended June 30, 2012, the increase in sales to Xiamen Minghao for the six months ended June 30, 2013 was mainly due to the increase in sales volume by Xiamen Minghao, as a result of the increase in demand and market acceptance of our products.

The prices for the sales of children's apparel products to Xiamen Minghao are agreed between Xiamen Minghao and us from time to time after arm's length negotiation and are comparable to market prices of similar products that we sell to other independent distributors customers.

CONNECTED TRANSACTIONS

Our Directors anticipate that the annual caps of the transaction amounts under the Xiamen Minghao Distributorship Agreement will be approximately RMB21 million, RMB26 million and RMB29 million, respectively, for each of the three years ending December 31, 2013, 2014 and 2015. The above annual caps are based on (i) sales to Xiamen Minghao for the ten months ended October 31, 2013 amounted to approximately RMB16.6 million, which represented approximately 97.1% of the total sales to Xiamen Minghao for the year ended December 31, 2012; (ii) sales volume to Xiamen Minghao for the ten months ended October 31, 2013 amounted to approximately 308,000 units, which represented approximately 89.2% of the total number of units sold to Xiamen Minghao for the year ended December 31, 2012 and the estimated sales volume to Xiamen Minghao for the year ending December 31, 2013 amounting to approximately 360,000 units, which is calculated primarily based on the actual sales volume for the ten months ended October 31, 2013 plus expected volume to be delivered to Xiamen Minghao in November and December of 2013; (iii) the ordered volume of our spring and summer collection for 2014 by Xiamen Minghao amounted to approximately 210,000 units, which represented an approximately 5% increase compared with Xiamen Minghao's ordered volume of our spring and summer collection for 2013, and for the sole purpose of determination of transaction caps, we expect that a similar growth trend will continue for the rest of the year of 2014 and the whole year of 2015; (iv) solely for the purpose of determining the annual cap amounts, the estimated increase in the average retail price of our products being sold to Xiamen Minghao from approximately RMB57.7 for the year ending December 31, 2013 to RMB64.9 for the year ending December 31, 2015; and (v) the expected growing rate for retail sales of children's apparel in the PRC at a CAGR of approximately 20.5% between 2012 and 2017, according to Frost & Sullivan.

As the applicable ratios (other than the profits ratio) for the transactions under the Xiamen Minghao Distributorship Agreement are expected to be more than 0.1% but less than 5% on an annual basis, the Xiamen Minghao Distributorship Agreement and the transactions contemplated therein constitute continuing connected transactions for our Company which are subject to the reporting, annual review and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

CONFIRMATIONS

Directors' Confirmation

Our Directors (including our independent non-executive Directors) consider that disclosure of the transactions under the Xiamen Minghao Distributorship Agreement in full compliance with the Listing Rules would add unnecessary administrative costs to our Company. In addition, our Directors believe that it is the interests of our Company to continue with these transactions after Listing.

Our Directors (including our independent non-executive Directors) confirm that (i) the transactions under the Xiamen Minghao Distributorship Agreement are entered into in the ordinary and usual course of business of our Group on normal commercial terms, are fair and reasonable and in the interests of our Company and our Shareholders as a whole, and that the annual caps of the transaction under the Xiamen Minghao Distributorship Agreement are fair and reasonable and in the interests of our Company and our Shareholders as a whole; and (ii) apart from the announcement requirements of which the waiver is sought, our Company will comply with the relevant requirements under Chapter 14A of the Listing Rules, including the proposed annual caps.

CONNECTED TRANSACTIONS

Joint Sponsors' Confirmation

After review of the relevant documentation and historical figures provided by us, the Joint Sponsors concur with the views of the Directors (including the independent non-executive Directors).

WAIVER FROM THE STOCK EXCHANGE

On the basis of the above, we have applied to the Stock Exchange for and the Stock Exchange has granted to us, a conditional waiver from strict compliance with the announcement requirements under Rule 14A.42(3) of the Listing Rules at the time of Listing in respect of the continuing connected transactions, i.e., the Xiamen Minghao Distributorship Agreement, described in this section. If any terms of the transactions under the Xiamen Minghao Distributorship Agreement are altered or if our Company enters into any new agreements with any connected persons (within the meaning of the Listing Rules) in the future, our Company will fully comply with the relevant requirements under Chapter 14A of the Listing Rules unless we apply for and obtain a separate waiver from the Stock Exchange.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board of Directors is responsible and has general powers for the management and conduct of our business. Our Board of Directors currently consists of seven Directors, including four executive Directors and three independent non-executive Directors. The following table sets forth information regarding members of our Board.

Name	Age	Position	Date of Appointment	Role and Responsibilities	Relationship among Directors
Mr. Ding Peiji	43	Executive Director, chief executive officer and chairman of the Board	March 15, 2013	Overall corporate strategies, planning and business development	a brother of both Mr. Ding Peiyuan and Ms. Ding Lizhen
Mr. Ding Peiyuan	40	Executive Director and Chief Operating Officer	December 16, 2013	Formulation and execution of business development strategies	a brother of both Mr. Ding and Ms. Ding Lizhen
Ms. Ding Lizhen	47	Executive Director and Vice President	December 16, 2013	Production management and product development	a sister of both Mr. Ding and Mr. Ding Peiyuan
Mr. Gu Jishi	43	Executive Director and Vice President	December 16, 2013	Brand development, and domestic sales channel and customer management	N/A
Mr. Leung Wai Yip	37	Independent non-executive Director	December 16, 2013	Provide independent opinion and judgment to our Board, in particular with regard to financial aspects of our Company	N/A
Mr. Mei Wenjue	43	Independent non-executive Director	December 16, 2013	Provide independent opinion and judgment to our Board	N/A
Mr. Zhu Wenxin	41	Independent non-executive Director	December 16, 2013	Provide independent opinion and judgment to our Board	N/A

Executive Directors

Mr. Ding Peiji (丁培基), aged 43, is the founder of our Group. He is also the chief executive officer and the chairman of the Board of our Company. He was appointed as an executive Director on March 15, 2013. He concurrently also serves as director of our subsidiaries of Obvious Cheer

DIRECTORS AND SENIOR MANAGEMENT

and Red Kids HK, the chairman of board of directors of our subsidiary Red Kids China, and the executive director of our subsidiary Miko Shanghai. Mr. Ding has over 13 years of experience in the apparel and retail industry and is primarily responsible for our overall corporate strategies, planning and business development. Mr. Ding established Red Kids China to engage in production and sales of textile and apparel products in January 2000. Mr. Ding's social undertakings include the vice Chairman for the second term of the Children's Wear Expert Committee of China National Garment Association (中國服裝協會童裝專業委員會) appointed in September 2009, the vice president for the first and second term of the Quanzhou Textile & Garments Commerce Chamber (泉州市紡織服裝商會) appointed in May 2002 and November 2008, respectively, a standing council member for the first term of the Federation of Industry & Commerce of Quanzhou Qingmeng Scientific & Technological Industrial Zone (泉州市清濛科技工業園區工商業聯合會) appointed in August 2002, and a Supervisor of Qingmeng Scientific & Technological Industrial Zone for Honest and Efficient Governance (清濛科技工業區勤政廉政監督員) appointed in July 2002. Mr. Ding completed the Advanced Management Programme by China Europe International Business School (中歐國際工商學院) in 2010.

Mr. Ding is the brother of each of Mr. Ding Peiyuan and Ms. Ding Lizhen, both of whom are our executive Directors.

Mr. Ding Peiyuan (丁培源), aged 40, was appointed as an executive Director and chief operating officer on December 16, 2013. He is also the vice general manager of our subsidiary Red Kids China. Mr. Ding Peiyuan has over 8 years of experience in the production and sales of apparel and retail industry and is primarily responsible for the formulation and execution of business development strategies of our Group. Mr. Ding Peiyuan joined our Group in January 2005. From January 2005 to January 2008, Mr. Ding worked as the manager of foreign trade business department of Red Kids China. From January 2008 to February 2009, he served as the director of the business development department of Red Kids China. Since March 2009, he has been the vice general manager of Red Kids China and took charge of its overall business activities. Mr. Ding Peiyuan completed the Advanced Management Programme by China Europe International Business School (中歐國際工商學院) in 2009.

In addition, Mr. Ding Peiyuan and his wife, Ms. She Xuefen (佘雪芬), established Red Kids E-commerce in the PRC in July 2010, to engage in online distribution of our Group's products. In connection with our preparation of the proposed Listing, with a view to avoid any connected transactions between Red Kids E-commerce and our Group and taking into account that neither of Mr. Ding Peiyuan and Ms. She Xuefen nor the Group had sufficient resources or expertise to further expand the online sales business to the desired level, and Mr. Ding Peiyuan and Ms. She Xuefen consider Mr. Ding Mingxiong (丁銘雄) and Mr. She Yuntao (佘雲濤) are better positioned to enhance "redkids" branded products' online sales as they have more online distribution experience. In addition, Mr. Ding Peiyuan and Ms. She Xuefen sold Red Kids E-commerce because they wanted to focus on their other business activities within our Group. Mr. Ding Peiyuan and Ms. She Xuefen entered into an equity transfer agreement dated June 27, 2012 with Mr. Ding Mingxiong and Mr. She Yuntao, both Independent Third Parties based on independent due diligence conducted by the Joint Sponsors, to transfer all of their interests in Red Kids E-commerce for a total consideration of RMB30 million in July 2012, which was determined by reference to the then paid-up registered capital of Red Kids E-commerce and the net asset value of Red Kids E-commerce as of June 30, 2012. The total consideration of RMB30 million was paid in full in cash by Mr. Ding Mingxiong and Mr. She Yuntao, in November 2012 and none of our Group's shareholders and/or Directors (or their respective associates) had financed the payment of such consideration. For further details in relation to Red Kids E-commerce, please refer to the

DIRECTORS AND SENIOR MANAGEMENT

paragraph headed “Sales and Distribution — Our Distribution Network — Our Distributors” under the section headed “Business” of the prospectus.

Mr. Ding Mingxiong is a business contact and a personal friend of Mr. Ding, and beneficially owned Yuen Hung at the relevant time, which was the shareholder of Red Kids Light Textile from December 1, 2004 till August 1, 2005. In addition, during the Track Record Period, our Group provided guarantees for Sunsea (Fujian) Garment Co., Ltd. (太陽海 (福建) 製衣有限公司) (“Sunsea Garment”) for loans amounted to RMB90 million, which were subsequently released. Mr. Ding Mingxiong has been a director of Sunsea Garment since 2004, and Mr. Ding Mingxiong was also a controlling shareholder of Yuen Hung at the relevant time, which is a controlling shareholder of Sunsea Garment. Save as disclosed above, there have been no past and there are no present relationships (including business, family, trust or employment relationships) between Mr. Ding Mingxiong and our Company, our subsidiaries, Shareholders, Directors, senior management or any of their respective associates.

There have been no past and there are no present relationships (including business, family, trust or employment relationships) between Mr. She Yuntao and our Company, our subsidiaries, Shareholders, Directors, senior management or any of their respective associates.

Mr. Ding Peiyuan is the brother of Mr. Ding and Ms. Ding Lizhen, both being our executive Directors.

Ms. Ding Lizhen (丁麗真), aged 47, was appointed as an executive Director and vice president on December 16, 2013. She is also the vice general manager of our subsidiary Red Kids China. Ms. Ding has over 13 years of experience in the apparel and retail industry and is primarily responsible for the production management and product development of our Group. Ms. Ding joined our Group in January 2000. From January 2000 to December 2003, Ms. Ding served as the manager of the production department of Red Kids China and took charge of our production management and internal control system. She was the manager of the planning department of Red Kids China from January 2004 to December 2006, and was mainly responsible for our product planning. Since January 2007, she has been the vice general manager of Red Kids China. Ms. Ding completed the color and modern design project research organized by China Fashion & Color Association (中國流行色協會) in September 2010.

Ms. Ding Lizhen is the sister of Mr. Ding and Mr. Ding Peiyuan, both of whom are our executive Directors.

Mr. Gu Jishi (顧及時), aged 43, was appointed as an executive Director and vice president on December 16, 2013. He is also a vice general manager of our Group. Mr. Gu has approximately 10 years of experience in the apparel and retail industry and is primarily responsible for our brand development, and domestic sales channel and customer management. Before joining our Group, Mr. Gu worked as a manager of business development department and a brand manager for sport products for Pou Sheng International (Holdings) Limited (寶勝國際 (控股) 有限公司), a company listed on the Main Board of the Stock Exchange (stock code: 3813), from 2003 to 2008, and was mainly responsible for the relationship management of key clients. Mr. Gu joined our Group in January 2009 as the vice general manager. Mr. Gu graduated from Sichuan University (四川大學) with a major in law in January 2006 through distance learning.

DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Mr. Leung Wai Yip (梁偉業), aged 37, was appointed as an independent non-executive Director of our Company on December 16, 2013. Mr. Leung held positions of staff accountant, senior accountant and manager of the assurance and advisory business services department of Ernst & Young from March 2000 to August 2005. Mr. Leung then worked as an internal auditor of the Swire Group since September 2005. From June 2007 to November 2010, Mr. Leung served as the financial controller and company secretary of Tiangong International Company Limited (天工國際有限公司), a company listed on the Stock Exchange (stock code: 826). Currently, Mr. Leung serves as the chief financial officer and company secretary of Chaowei Power Holdings Limited (超威動力控股有限公司), a company listed on the Stock Exchange (stock code: 951) since December 2010. Mr. Leung obtained a bachelor's degree in commerce from the University of Alberta, Canada in June 1998 and a master degree of business administration from the Hong Kong University of Science and Technology in November 2010. Mr. Leung is a member of the American Institute of Certified Public Accountants, and an associate member of the Hong Kong Institute of Certified Public Accountants.

Mr. Mei Wenjue (梅文珏), aged 43, was appointed as an independent non-executive Director of our Company on December 16, 2013. Mr. Mei served as a manager of safety management system office, the secretary of safety committee and safety information manager of China Southern Airline Company Limited (中國南方航空股份有限公司, "CSA"), a company listed on both the Stock Exchange (stock code: 1055) and the Shanghai Stock Exchange (stock code: 600029) and the deputy representative of CSA in the safety security and quality functional executives of Skyteam (天合聯盟). He has been an independent non-executive director of Country Garden Holdings Company Limited (碧桂園控股有限公司), a company listed on the Stock Exchange (stock code: 2007) since May 2013. Mr. Mei also serves as the chief representative of Shenzhen Office of China Europe International Business School (中歐國際工商學院深圳代表處). Mr. Mei graduated from Sun Yat-Sen University (中山大學) with bachelor's degree in English language and literature and a master degree in public administration, and from School of Management of Cranfield University in United Kingdom with a master's degree in business administration.

Mr. Zhu Wenxin (祝文欣), aged 41, was appointed as an independent non-executive Director of our Company on December 16, 2013. Mr. Zhu has held the position of the chairman of the board of directors System of Expert Consultancy Group (中研國際時尚品牌管理諮詢集團) since 1999. Currently, Mr. Zhu also serves as an independent Director of Zuoan Fashion Limited (左岸服飾有限公司), a company listed on the New York Stock Exchange (stock symbol: ZA) and a clothing industry senior consultant of Alibaba (China) Network Technology Co., Ltd. (阿里巴巴(中國)網路技術有限公司). Mr. Zhu graduated from Urumqi Vocational University (烏魯木齊職業大學) in July 1994 with major in business economics. Mr. Zhu is also a member of first term of China National Garment Association Market Expert Committee (中國服裝協會第一屆市場專家委員會), a honorary professor of Zhongyuan Textile Management Training Center (中原紡織管理培訓中心) appointed by Zhengzhou Industry & Commerce Garment Chamber (鄭州市工商聯服裝業商會), and a distinguished professor of the Asia Pacific International Institute, Zhongyuan Institute of Technology (中原工學院亞太國際學院).

Each of our Directors confirms that he or she does not have any competing business with our Group. Moreover, pursuant to their respective service agreements, our executive Directors will not at any time during their terms of service with our Group without the prior written consent of the Board be or become a director of any company (other than our Company or any other member of our Group) or be engaged, concerned or interested directly or indirectly in any other business, trade or occupation.

DIRECTORS AND SENIOR MANAGEMENT

Except as disclosed herein, to the best of the knowledge, information and belief of our Directors, having made all reasonable enquiries, there are no other matters relating to the appointment of Directors that need to be brought to the attention of the Shareholders, nor is there any information relating to our Directors that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules, including matters relating to directorships held by Directors in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately preceding the date of this prospectus.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Role and Responsibility</u>
Mr. Ng Cheuk Him	38	Chief financial officer and joint company secretary	Overall financial management and company secretarial affairs
Ms. Ding Wanwan	39	Head of the production center	Supply chain management
Ms. Chong Pui Shan	34	Design director	Overall design and development of products
Mr. Wu Chentong	39	Finance manager	Corporate financial management

SENIOR MANAGEMENT

Mr. Ng Cheuk Him (吳卓謙), aged 38, is the chief financial officer of our Group and was appointed a joint company secretary of our Company on December 16, 2013. He joined our Group in August 2013 and is primarily responsible for our overall financial management and company secretarial affairs. From April 2000 to May 2004, he worked as an audit manager in Ernst & Young. From August 2005 to April 2007, Mr. Ng joined China Ting Group Holding Limited (華鼎集團控股有限公司), a company listed on the main board of the Stock Exchange (stock code: 3398), and served as a senior financial manager. From June 2007 to January 2009, he held a senior position in BNP Paris Capital (Asia Pacific) Limited. From March 2009 to August 2013, Mr. Ng had also held the position of the chief financial officer and since April 2009, he was appointed as company secretary for China Sunshine Paper Holdings Company Limited (中國陽光紙業控股有限公司), a company listed on the main board of the Stock Exchange (stock code: 2002). Mr. Ng has an extensive working experience in corporate financial management, accounting and auditing. Mr. Ng obtained a degree of arts in accountancy from The Hong Kong Polytechnic University in 1997. Mr. Ng is an associate member of the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Chartered Secretaries.

Ms. Ding Wanwan (丁皖皖), aged 39, is the head of the production center of our Group and is primarily responsible for our supply chain management. She joined our Group in March 2000 and served as a production department manager from May 2004 to December 2005, mainly responsible for the production management and the establishment, execution and improvement of internal control system regarding production. During January 2006 to October 2008, she worked as a manager of the planning department and was responsible for the planning of our products portfolio and product quality control. She completed the training program for senior manager by Executive Development Program Center, School of Management, Xiamen University (廈門大學管理學院高層管理培訓中心) in June 2012.

Ms. Chong Pui Shan (莊佩珊), aged 34, is the design director of our Group. Ms. Chong has approximately 11 years of experience in the design and development of apparel, footwear and accessories, and is primarily responsible for the overall design and development of the products of our Group. Ms. Chong joined our Group in June 2012. Prior to joining our Group, she worked in ABSO Production Company Ltd. as a freelance designer for approximately 3 years. During April 2005 to June 2008, she worked as a fashion designer in Laws Fashion Group Limited (羅氏時裝集團有限公司). She then worked as department manager in Yishion Group Co., Ltd.

DIRECTORS AND SENIOR MANAGEMENT

(以純集團有限公司) from February 2009 to February 2012. Ms. Chong obtained a higher diploma in fashion and clothing from The Hong Kong Polytechnic University in July 2002.

Mr. Wu Chentong (伍臣通), aged 39, is a finance manager of our Group. Mr. Wu has over 15 years of experience in financial management and is primarily responsible for corporate financial management. He joined our Group in September 2011 and served as a finance manager. He served as a finance manager in Dapai (China) Co., Ltd. (達派(中國)有限公司) from October 2005 to September 2011. Mr. Wu graduated from Sanming Vocational University* (三明職業大學) in July 1998 with a major in accounting. He was qualified as a Medium Level Accountant (中級會計師) in the PRC in May 2005.

JOINT COMPANY SECRETARIES

Mr. Ng Cheuk Him (吳卓謙), please refer to the paragraph headed “Senior Management” above for his biographical details.

Ms. Lu Yanping (盧燕萍), aged 25, was appointed as one of the joint company secretaries of our company on December 16, 2013. Ms. Lu joined our Group in July 2010 and has assumed the position of secretary to the chairman of the board of directors of Red Kids China since then. She is mainly responsible for providing assistance to Mr. Ding, in the discharge of his duties and responsibilities as chairman of the Board, including coordination of board meeting and preparation of board minutes. Ms. Lu graduated from Quanzhou Institute of Technology (泉州理工職業學院) in June 2011 with a major in international trade and practice.

MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. Since our principal business operations are conducted in the PRC, members of our senior management team (other than Mr. Ng Cheuk Him, one of our joint company secretaries and the chief financial officer of our Group, who is ordinarily resident in Hong Kong) are and will therefore be expected to continue to be based in the PRC. Further, none of our execution Directors are expected to be based in Hong Kong upon the Listing. Accordingly, we have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement under Rule 8.12 of the Listing Rules. For details, please see the paragraph headed “Management presence” under the section headed “Waiver from strict compliance with the Listing Rules” in this prospectus.

REMUNERATION POLICY

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and discretionary bonuses related to the performance of our Company. We also reimburse them for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations. We regularly review and determine the remuneration and compensation package of our Directors and senior management, by reference to, among other things, market level of salaries paid by comparable companies, the respective responsibilities of our Directors and the performance of our Company.

After the Listing, our Directors and senior management may also receive options to be granted under the Share Option Scheme.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION DURING THE TRACK RECORD PERIOD

For the years ended December 31, 2010, 2011 and 2012, the aggregate remuneration paid and benefits in kind granted to our Directors by us and our subsidiaries was approximately RMB1.0 million, RMB1.5 million and RMB1.6 million, respectively.

Save as disclosed in this prospectus, no other emoluments have been paid, or are payable, by us to our Directors in respect of the years ended December 31, 2010, 2011 and 2012.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary bonus and share-based payment compensation granted under the Pre-IPO Share Option Scheme) for the year ending December 31, 2013 will be approximately RMB2.6 million.

During the Track Record Period, no remuneration was paid by us to, or received by, our Directors as an inducement to join or upon joining us or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Track Record Period.

For additional information on Directors' remuneration during the Track Record Period as well as information on the highest paid individuals, please refer to the accountants' report set out in Appendix I to this prospectus.

BOARD COMMITTEES

Audit Committee

We have established an audit committee pursuant to a resolution of our Directors passed on December 16, 2013 in compliance with Rule 3.21 of and paragraph C.3 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to assist our Board in providing an independent view of the effectiveness of our financial reporting process, internal control and risk management systems, oversee the audit process and perform other duties and responsibilities as assigned by our Board. At present, the audit committee of our Company consists of three independent non-executive Directors, being Mr. Mei Wenjue, Mr. Leung Wai Yip and Mr. Zhu Wenxin, and Mr. Leung Wai Yip is the chairman of the audit committee.

Remuneration Committee

We have established a remuneration committee on December 16, 2013 with written terms of reference in compliance with Rule 3.25 of and paragraph B.1 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objects and make recommendations to the Board on the remuneration package of individual executive Director and senior management. The remuneration committee consists of three members, namely Mr. Mei Wenjue, Mr. Zhu Wenxin and Mr. Ding Peiyuan, and Mr. Mei Wenjue is the chairman of the remuneration committee.

DIRECTORS AND SENIOR MANAGEMENT

Nomination Committee

We have established a nomination committee on December 16, 2013 with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary function of the nomination committee is to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive. The nomination committee consists of three members, comprising Mr. Zhu Wenxin, Mr. Leung Wai Yip and Mr. Gu Jishi, and Mr. Zhu Wenxin is the chairman of the nomination committee.

COMPLIANCE ADVISER

Our Company will appoint RHB OSK Capital Hong Kong Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise our Company on the following matters:

- (a) the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (c) where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where its business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- (d) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares of our Company.

The term of the appointment shall commence on the Listing Date and end on the date on which our Company distributes its annual report in respect of its financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

As of the Latest Practicable Date, Mr. Ding, a Controlling Shareholder, is the chairman of our Board and is our chief executive officer. Taking into account the current scale of our operations and our management structure, we consider that entrusting Mr. Ding to perform both the functions of the chairman of our Board and the chief executive officer of our Company is appropriate.

We consider that, upon the Listing, we will be in compliance with all code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules, except for code provision A.2.1, which provides that, among other things, the role of chairman of the board and the chief executive officer of a listed issuer shall be separate and shall not be performed by the same individual.

DIRECTORS AND SENIOR MANAGEMENT

As Mr. Ding is both the chief executive officer and the chairman of the Board of our Company, our Company is in deviation from code provision A.2.1. We consider that vesting the roles of both chairman and chief executive officer in the same person in Mr. Ding has the benefit of ensuring consistent leadership within our Group and enables more effective and efficient overall strategic planning for our Group. The Board believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by current Board composition and structure taking into account the background and experience of our Directors and the number of independent non-executive Directors on the Board.

SHARE CAPITAL

SHARE CAPITAL

The authorized and issued share capital of our Company is as follows:

<u>Authorized share capital:</u>	<u>HK\$</u>
10,000,000,000 Shares	100,000,000

Assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme or options that may be granted under the Share Option Scheme, our Company's issued share capital immediately after completion of the Capitalization Issue and the Global Offering will be as follows:

<u>Shares</u>	<u>HK\$</u>	<u>Approximate percentage of issued share capital (%)</u>
1,000,000 Shares in issue as at the Latest Practicable Date	10,000	0.12
639,000,000 Shares to be issued under the Capitalization Issue	6,390,000	79.88
160,000,000 Shares to be issued under the Global Offering	<u>1,600,000</u>	<u>20.00</u>
800,000,000 Total	<u>8,000,000</u>	<u>100.00</u>

Assuming the Over-allotment Option is exercised in full and without taking into account any Shares which may be issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme or options that may be granted under the Share Option Scheme, our Company's issued share capital immediately following the completion of the Capitalization Issue and the Global Offering will be as follows:

<u>Shares</u>	<u>HK\$</u>	<u>Approximate percentage of issued share capital (%)</u>
1,000,000 Shares in issue as at the Latest Practicable Date	10,000	0.12
639,000,000 Shares to be issued under the Capitalization Issue	6,390,000	77.55
160,000,000 Shares to be issued under the Global Offering	1,600,000	19.42
24,000,000 Shares to be issued upon exercise of the Over-allotment Option	<u>240,000</u>	<u>2.91</u>
824,000,000 Total	<u>8,240,000</u>	<u>100.00</u>

Note: The Shares referred to in the above table have been or will be fully paid or credited as fully paid when issued.

RANKING

The Offer Shares are ordinary shares in the share capital of our Company and will rank equally in all respects with all Shares in issue or to be issued as set out in the above table, and will qualify and rank equally for all dividends or other distributions declared, made or paid after the date of this prospectus.

THE PRE-IPO SHARE OPTION SCHEME AND THE SHARE OPTION SCHEME

We have conditionally adopted the Pre-IPO Share Option Scheme and the Share Option Scheme on December 27, 2013. Under the Pre-IPO Share Option Scheme, certain persons were conditionally granted options immediately prior to the Listing Date to subscribe for our Shares. The principal terms of the Pre-IPO Share Option Scheme and the Share Option Scheme are

SHARE CAPITAL

summarized in the sections headed “Pre-IPO Share Option Scheme” and “Share Option Scheme”, respectively, in Appendix V to this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

- (i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalization Issue and the Global Offering (excluding any Shares which may fall to be issued pursuant to the Over-allotment Option, exercise of options granted under the Pre-IPO Share Option Scheme and options to be granted under the Share Option Scheme); and
- (ii) the aggregate nominal value of share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to below.

This mandate will expire at the earliest of:

- (i) the conclusion of our Company’s next annual general meeting unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or
- (ii) the expiration of the period within which our Company is required by law or the Articles of Association to hold its next annual general meeting; or
- (iii) the time when such mandate is varied, revoked or renewed by an ordinary resolution of our Company’s Shareholders in a general meeting.

Further details of this general mandate are set out in the paragraph headed “Further information about our Company — Written resolutions of our Shareholders passed on December 27, 2013” in Appendix V to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue or to be issued immediately following completion of the Capitalization Issue and the Global Offering (excluding any Shares which may fall to be issued upon the exercise of the Over-allotment Option, exercise of options granted under the Pre-IPO Share Option Scheme and options to be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange, or any other approved stock exchange(s) on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed “Further information about our Company — Repurchase of our Shares” in Appendix V to this prospectus.

SHARE CAPITAL

This mandate will expire at the earliest of:

- (i) the conclusion of our Company's next annual general meeting unless renewed by an ordinary resolution of our Shareholders in an general meeting, either unconditionally or subject to conditions; or
- (ii) the expiration of the period within which our Company is required by law or Articles of Association to hold its next annual general meeting; or
- (iii) the time when such mandate is varied, revoked or renewed by an ordinary resolution of our Company's Shareholders in a general meeting.

For further details of this repurchase mandate, see the paragraph headed "Further information about our Company — Written resolutions of our Shareholders passed on December 27, 2013" in Appendix V to this prospectus.

SUBSTANTIAL SHAREHOLDERS

Each of the following persons will, immediately following completion of the Capitalization Issue and the Global Offering (without taking into account the Shares which may be issued upon the exercise of the Over-allotment Option or the Shares which may be issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme or options which may be granted under the Share Option Scheme), have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name	Nature of interest	Capacity	Number of Shares	Approximate percentage of shareholding ⁽⁹⁾
Think Wise ⁽¹⁾	L ⁽⁷⁾	Beneficial owner	262,684,813 - 318,077,318	32.84 - 39.76%
Mr. Ding ⁽¹⁾	L ⁽⁷⁾	Interest in a controlled corporation	262,684,813 - 318,077,318	32.84 - 39.76%
Opulent Ample ⁽²⁾	L ⁽⁷⁾	Beneficial owner	42,240,000	5.28%
Mr. Ding Weizhu ⁽²⁾	L ⁽⁷⁾	Interest in a controlled corporation	42,240,000	5.28%
Snowy Wise ⁽³⁾	L ⁽⁷⁾	Beneficial owner	42,240,000	5.28%
Ms. Ding Lizhen ⁽³⁾	L ⁽⁷⁾	Interest in a controlled corporation	42,240,000	5.28%
		Beneficial owner	800,000 ⁽⁸⁾	0.10%
Rightful Style ⁽⁴⁾	L ⁽⁷⁾	Beneficial owner	42,240,000	5.28%
Mr. Ding Peiyuan ⁽⁴⁾	L ⁽⁷⁾	Interest in a controlled corporation	42,240,000	5.28%
		Beneficial owner	800,000 ⁽⁸⁾	0.10%
Splendid First ⁽⁵⁾	L ⁽⁷⁾	Beneficial owner	41,600,000	5.20%
Ms. Ting Lai Yan ⁽⁵⁾	L ⁽⁷⁾	Interest in a controlled corporation	41,600,000	5.20%
Chance Talent ⁽⁶⁾	L ⁽⁷⁾	Beneficial owner	43,522,682 - 98,915,187	5.44% - 12.36%

Note:

(1) Think Wise is wholly-owned and controlled by Mr. Ding. Accordingly, Mr. Ding is deemed to be interested in all the Shares in which Think Wise is interested pursuant to the SFO.

The number of Shares exchangeable upon exercise of the exchange rights under the Exchangeable Notes will vary depending on the terms of the Exchangeable Notes. For illustration purposes only, adopting the mid-point of the indicative Offer Price range of HK\$1.96 per Share, Think Wise's interest in our Company will range from approximately 32.84% to approximately 39.76%.

(2) Opulent Ample is wholly-owned and controlled by Mr. Ding Weizhu, the father of Mr. Ding, Ms. Ding Lizhen and Mr. Ding Peiyuan, each an executive Director. Accordingly, Mr. Ding Weizhu is deemed to be interested in all the Shares in which Opulent Ample is interested.

(3) Snowy Wise is wholly-owned and controlled by Ms. Ding Lizhen, an executive Director. Accordingly, Ms. Ding Lizhen is deemed to be interested in all the Shares in which Snowy Wise is interested pursuant to the SFO.

(4) Rightful Style is wholly-owned and controlled by Mr. Ding Peiyuan, an executive Director. Accordingly, Mr. Ding Peiyuan is deemed to be interested in all the Shares in which Rightful Style is interested pursuant to the SFO.

(5) Splendid First is wholly-owned and controlled by Ms. Ting Lai Yan, an elder sister of Mr. Ding, Ms. Ding Lizhen and Mr. Ding Peiyuan, each an executive Director. Accordingly, Ms. Ting Lai Yan is deemed to be interested in all the Shares in which Splendid First is interested.

SUBSTANTIAL SHAREHOLDERS

- (6) *The exact number of Shares to be transferred to Chance Talent upon exercise by Chance Talent of the exchange rights under the Exchangeable Notes will vary pursuant to the terms of the Exchangeable Notes. For illustration purpose only, adopting the mid-point of the indicative Offer Price range of HK\$1.96 per Share, Chance Talent's interest in our Company upon the Listing will range from approximately 5.44% to approximately 12.36%.*
- (7) *The letter "L" denotes long position.*
- (8) *Each of Ms. Ding Lizhen and Mr. Ding Peiyuan, an executive Director, has been granted an option to subscribe for 800,000 Shares under the Pre-IPO Share Option Scheme.*
- (9) *On the basis that the Listing will be completed on or before October 31, 2014, without taking into account of any Shares to be issued upon exercise of the Over-allotment Option, options granted under the Pre-IPO Share Option Scheme or options which may be granted under the Share Option Scheme.*

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the Capitalization Issue and the Global Offering (without taking into account the Shares which may be issued upon the exercise of the Over-allotment Option or the Shares which may be issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme or options which may be granted under the Share Option Scheme), have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

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You should read the following discussion and analysis of our financial condition and results of operations together with the financial information as of and for each of the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 and the accompanying notes included in the accountants' report set out in Appendix I to this prospectus (the "Accountants' Report"). The financial information in the Accountants' Report has been prepared in accordance with IFRS. Potential investors should read the Accountants' Report and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please see "Risk Factors" in this prospectus for more details.

OVERVIEW

We are a leading mid-to-high end children's apparel brand in China. We offer a wide range of high-quality, functional and comfortable children's apparel products under our "redkids" brand. Our "redkids" brand is ranked second among mid-to-high end children's apparel brands in China based on retail revenue for the year ended December 31, 2012, according to Frost & Sullivan.

We primarily sell our products on a wholesale basis to distributors. The distributors sell our products either to end customers at retail outlets operated by them or to their sub-distributors. We also manufactured children's apparel for domestic and international brands on an OEM basis during the Track Record Period. As of June 30, 2013, we had 24 distributors, who together with their sub-distributors, operated a total of 582 retail outlets under our "redkids" brand throughout 24 provinces and municipalities in China, including 308 street shops, 62 shopping mall outlets and 212 department store concessions. We intend to gradually increase the number of our self-operated retail outlets in selected markets primarily, which we intend to use as model stores to enhance our brand recognition, demonstrate our standards for store appearance and operational management, and provide guidance to distributors in brand promotion and efficient retail management. We plan to sell our products directly to end customers through these self-operated retail outlets. Currently, we do not expect the total number of our self-operated retail outlets to exceed 50 by the end of 2014. As of Latest Practicable Date, we have one designated online distributor, Red Kids E-commerce, which purchases products from us on a wholesale basis before selling them to end customers through various online sales platforms. Our sales to Red Kids E-commerce increased significantly from RMB0.8 million for the year ended December 31, 2010 to RMB29.8 million for the year ended December 31, 2011 to RMB87.8 million for the year ended December 31, 2012, and our sales to Red Kids E-commerce increased from RMB24.5 million for the six months ended June 30, 2012 to RMB37.1 million for the six months ended June 30, 2013. For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our sales to Red Kids E-commerce represented 0.2%, 7.6%, 16.9% and 14.7% of our turnover, respectively.

During the Track Record Period, we manufactured a portion of our products at our own production facility in Quanzhou, Fujian Province, and outsourced the remainder to domestic OEMs. The proportion of products that were manufactured by our OEMs increased over the Track Record Period, accounting for approximately 14.6%, 40.2%, 50.1% and 68.1% of our total cost of sales for the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively. We currently expect outsourced products to represent a further increasing percentage of our cost of sales in the near future.

We achieved significant growth in turnover and net profit over the Track Record Period. Our turnover increased from RMB327.0 million for the year ended December 31, 2010 to

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RMB392.4 million for the year ended December 31, 2011 to RMB520.0 million for the year ended December 31, 2012, and our turnover increased from RMB176.5 million for the six months ended June 30, 2012 to RMB253.2 million for the six months ended June 30, 2013. Our profit for the year increased from RMB75.9 million for the year ended December 31, 2010 to RMB77.3 million for the year ended December 31, 2011 to RMB115.4 million for the year ended December 31, 2012, and our profit increased from RMB33.8 million for the six months ended June 30, 2012 to RMB42.2 million for the six months ended June 30, 2013.

BASIS OF PRESENTATION

Our Company was incorporated as an exempted company under the laws of the Cayman Islands with limited liability on March 15, 2013. Following the completion of the Corporate Reorganization on April 16, 2013, our Company became the holding company of companies now comprising our Group. The Corporate Reorganization completed on April 16, 2013 has been accounted for in accordance with the principle similar to a reverse acquisition as set out in IFRS 3, “Business Combinations”. The issue of shares of the Company in exchange for the controlling interest in Red Kids HK and the connected share swap between the Company, Obvious Cheer and Red Kids HK resulted in the Company becoming the holding company of Red Kids HK.

The financial information in the Accounts’ Report has been prepared as a continuation of Red Kids HK and the consolidated assets and liabilities of Red Kids HK are recognized and measured at their historical carrying values prior to April 16, 2013.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been and will continue to be affected by a number of external factors, including the following:

Brand recognition

We sell substantially all our products under our “redkids” brand. We believe that our ability to produce high-quality, functional and comfortable children’s apparel have helped us to attract our target customers. Market acceptance of our brand may affect the selling prices and market demand for our products, our profitability and future development. As a result, we believe that market recognition of our brand is critical to our success. We spent approximately RMB28.8 million, RMB36.2 million, RMB41.2 million and RMB18.7 million on our brand promotion and marketing activities for the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively. We also work closely with our distributors to ensure that our brand culture and brand image is maintained consistently at the retail outlets. We intend to strengthen our promotional efforts and continue to devote resources to raise our brand profile through multiple advertising channels and platforms. Our success in growing our end customer base depends on our ability to enhance our brand awareness and to maintain a brand image and culture that appeals to potential customers. If we are unsuccessful in promoting our “redkids” brand or fail to maintain our brand position, market perception and consumer acceptance of our brand may be eroded, and our business, financial condition, results of operations and prospects may be materially and adversely affected.

Expansion and performance of our distribution network

We sell substantially all of our products on a wholesale basis to distributors. Our distributors sell our products either to end customers at their retail outlets or through their

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sub-distributors. As of December 31, 2010, 2011 and 2012 and June 30, 2013, we had 476, 560, 594 and 582 retail outlets operated by our distributors and sub-distributors in China for our products. For further details of retail outlet breakdown under our “redkids” brand by region, please see “Business — Sales and Distribution — Our Distribution Network.” Our ability to increase sales is directly affected by the number and performance of the retail outlets operated by our distributors and their subdistributors. We intend to increase our penetration in existing markets and expand our distribution network to new markets. We believe that it is important to enhance our distribution network in third- and fourth-tier cities, where we believe the growth potential is significant. Our sales and profit growth will continue to depend on our ability to expand our distribution network and to effectively manage our distributors to improve the performance of the retail outlets.

Raw materials and labor costs

We outsource the production of certain products to OEMs and manufacture the rest of our products at our production facility in Quanzhou, Fujian Province. It is important for us and our OEMs to obtain sufficient quantities of quality raw materials in a timely manner and at competitive prices. The cost of raw materials used to produce our products is affected by several factors, including commodity prices, purchase volume and availability of substitute materials. For the three years ended December 31, 2010, 2011 and 2012 and six months ended June 30, 2013, cotton blend fabrics accounted for approximately 48.9%, 34.5%, 24.4% and 18.3% of the total cost of raw materials consumed. According to the China Cotton Association, the China Cotton Index 328 increased by approximately 23.1% from an average of RMB19,373.8 per ton in 2010 to an average of RMB23,843.8 per ton in 2011, then decreased by approximately 20.7% to an average of RMB18,916.5 per ton in 2012 and increased by approximately 2.2% to an average of RMB19,326.1 per ton in the six months ended June 30, 2013. Furthermore, our cost of production is also influenced by changes in labor costs in the PRC. In addition to inflation and other factors, the implementation of certain policies, such as the PRC Employment Contract Law, may affect labor costs in the PRC. For the three years ended December 31, 2010, 2011 and 2012 and six months ended June 30, 2013, our labor cost amounted to RMB33.5 million, RMB34.2 million, RMB34.9 million and RMB13.0 million, respectively. Our average staff cost per head increased by 2.8% from an average of RMB35,172 in 2010 to an average of RMB36,144 in 2011 and then further increased by approximately 17.3% to an average of RMB42,408 in 2012. If costs of raw materials and labor increase and we are unable to pass on such increases to our customers in a timely manner, our business, financial condition and results of operations may be materially and adversely affected. See “Risk Factors — Risks Relating to Our Business and Our Industry — Increase in cost of outsourced production, raw materials and labor in the PRC may adversely affect our business and our profitability”.

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Sensitivity analysis

The following tables illustrates the sensitivity of our net profit for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 in relation to movements in our cost of cotton fabric and cost of labor of the respective periods.

	For the year ended December 31,						For the six month ended June 30,	
	2010		2011		2012		2013	
	Net profit	Change in net profit	Net profit	Change in net profit	Net profit	Change in net profit	Net profit	Change in net profit
Cotton fabric cost changes	RMB	%	RMB	%	RMB	%	RMB	%
20%	56,834,520	(25.2)%	60,181,418	(22.2)%	99,624,820	(13.7)%	36,433,580	(13.7)%
10%	66,389,760	(12.6)%	68,752,209	(11.1)%	107,531,410	(6.9)%	39,330,790	(6.9)%
0%	75,945,000	0.0%	77,323,000	0.0%	115,438,000	0.0%	42,228,000	0.0%
(10)%	85,500,240	12.6%	85,893,791	11.1%	123,344,590	6.9%	45,125,210	6.9%
(20)%	95,055,480	25.2%	94,464,582	22.2%	131,251,180	13.7%	48,022,420	13.7%

	For the year ended December 31,						For the six month ended June 30,	
	2010		2011		2012		2013	
	Net profit	Change in net profit	Net profit	Change in net profit	Net profit	Change in net profit	Net profit	Change in net profit
Direct labor cost changes	RMB	%	RMB	%	RMB	%	RMB	%
20%	70,530,414	(7.1)%	72,676,345	(6.0)%	110,620,165	(4.2)%	40,803,883	(3.4)%
10%	73,237,707	(3.6)%	74,999,672	(3.0)%	113,029,083	(2.1)%	41,515,941	(1.7)%
0%	75,945,000	0.0%	77,323,000	0.0%	115,438,000	0.0%	42,228,000	0.0%
(10)%	78,652,293	3.6%	79,646,328	3.0%	117,846,917	2.1%	42,940,059	1.7%
(20)%	81,359,586	7.1%	81,969,655	6.0%	120,255,835	4.2%	43,652,117	3.4%

Economic growth and per capita disposable income in the PRC

We generate substantially all of our revenue in the PRC and our business is directly affected by the economic development in the PRC. The PRC has experienced significant economic growth in recent years, achieving a CAGR for nominal GDP of approximately 13.4% from 2008 to 2012. Economic growth in the PRC contributes to increases in disposable income and consumer spending among its population, which, in turn, drive demand for consumer products. According to the National Bureau of Statistics of China, per capita annual disposable income of urban residents in China, which make up the majority of our end consumers, grew from approximately RMB15,780.8 in 2008 to approximately RMB24,565.0 in 2012, representing a CAGR of approximately 11.7%. Furthermore, the average annual Chinese household disposable income is expected to increase to RMB46,814.0 in 2017, representing a CAGR of 13.8%, according to Frost & Sullivan. In addition, the per capita annual expenditure on children's apparel in the PRC grew at a CAGR of 20.5% between 2008 and 2012 and is expected to continue to increase from RMB740.3 in 2012 to RMB1,658.9 in 2017, representing a CAGR of 17.5% for the period from 2012 to 2017, according to Frost & Sullivan. Economic development and increase in disposable income tend to help increase demand for quality children's products. We believe that the growth of the PRC economy will help to expand our end customer base, increase demand for our products and contribute to the growth in our revenue and profits. On the other hand, any slow down or decline in the PRC economy may adversely affect consumer demand in general and the demand for our products and therefore negatively affect our business, financial condition, results of operations and prospects.

PRC governmental policies

PRC governmental policies and measures may have a direct impact on our business. In particular, any adjustments or changes from the PRC government on policies and measures relating

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to population growth will have an effect on our growth prospects. For example, any changes or adjustments to the “one-child” policy will have a direct impact on our target consumer group and the market demand for children’s products, which in turn will influence our sales and business prospects. In addition, regulatory policies affecting the children’s apparel industry will continue to have a direct impact on us. Policies that elevate product quality standards may materially change our production costs, and if we are unable to meet new standards, demand for our products may be adversely affected. Our ability to comply with any new regulatory policies will affect our business, financial condition, results of operations and prospects.

Seasonality

Our business and operating results are subject to seasonal fluctuations. We generally record higher sales in the autumn and winter seasons because the average wholesale selling prices of our autumn and winter apparel are typically higher than those of spring and summer apparel. We also record higher sales to distributors typically before and during holiday seasons, such as Children’s Day, the Chinese New Year and the Chinese National Day holidays. Our operating results may also fluctuate from period to period based on changes in fashion trends, consumer demand and the seasonality of consumer spending on children’s apparel. In addition, changes in the weather patterns, extreme or unusual weather conditions may also cause our results of operations to fluctuate. As a result, any comparison of our sales and operating results between different periods within a single financial year, or between different periods in different financial years, are not necessarily meaningful and cannot be relied on as indicators of our performance. Our results of operations are likely to continue to fluctuate due to seasonality. The following table sets forth our seasonal average wholesale selling price during the periods indicated:

<u>Average wholesale selling price</u>	<u>For the year ended December 31,</u>			<u>For the six months ended June 30,</u>	
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>	<u>2013</u>
	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>
Spring/summer products	31.8	37.3	42.6	40.1	43.2
Fall/winter products	65.4	72.3	79.5	— ⁽¹⁾	— ⁽¹⁾

Note:

(1) During the six months ended June 30, 2012 and 2013, we sold only a limited number of fall/winter apparel. As a result, the average wholesale selling price of these products are not included in this table.

Pricing of our products and product mix

We determine the retail price of our products based on multiple factors, including our internal production costs, our competitor’s pricing strategies, consumer purchasing power, and the general economic conditions in the PRC. In addition, the willingness of our target customers to pay a premium for high-quality children’s apparel also play a significant role in our pricing decisions. We typically sell our products to our distributors at a discount to the suggested retail price. Any change in the discount rate will directly affect our revenue and profit margins. In addition, as part of our efforts to maximize revenue, we continuously adjust our product mix by developing and introducing new products that we believe will generate higher consumer demand. Our revenue, profitability and financial condition will continue to be affected by any change in our product mix and pricing of our products.

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Sensitivity analysis

The following tables illustrates the sensitivity of our net profit for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 in relation to movements in our average wholesale selling price of the respective periods.

Average wholesale selling price changes	For the year ended December 31,						For the six month ended June 30,	
	2010		2011		2012		2013	
	Net profit	Change in net profit	Net profit	Change in net profit	Net profit	Change in net profit	Net profit	Change in net profit
	RMB	%	RMB	%	RMB	%	RMB	%
20%	138,380,400	82.2%	150,070,000	94.1%	218,617,600	89.4%	92,738,000	119.6%
10%	107,162,700	41.1%	113,696,500	47.0%	167,027,800	44.7%	67,483,000	59.8%
0%	75,945,000	0.0%	77,323,000	0.0%	115,438,000	0.0%	42,228,000	0.0%
(10)%	44,727,300	(41.1)%	40,949,500	(47.0)%	63,848,200	(44.7)%	16,973,000	(59.8)%
(20)%	13,509,600	(82.2)%	4,576,000	(94.1)%	12,258,400	(89.4)%	(8,282,000)	(119.6)%

Taxation

Our profitability and financial performance is affected by the level of taxation that we pay on our profit and the preferential tax treatments to which we are entitled. Under the Enterprise Income Tax Law of the PRC, there is a transition period for enterprises, whether foreign-invested or domestic, that were then receiving preferential tax treatment under the former applicable laws and regulations. Enterprises subject to an enterprise income tax rate lower than 25% may continue to enjoy the lower rate and gradually transition to the new tax rate within five years after the effective date of the EIT Law. Our PRC operating subsidiary, Red Kids China, is entitled to a two-year tax exemption followed by a three-year 50% reduction in enterprise income tax rate commencing from its first profitable year. Red Kids China first became profitable in 2008. It was subject to a reduced enterprise income tax rate of 12.5% from 2010 to 2012 and will be subject to the standard enterprise income tax rate of 25% in 2013 and beyond.

Competition

The children's apparel industry in China is fragmented and highly competitive. We compete primarily with PRC domestic children's apparel brands, such as Balabala, Goodbaby, Dadida and Annil Kidswear, on the basis of brand recognition, product design, product quality, marketing and promotion, end customer service, retail network coverage and price. We have limited ability to set price levels of our products in our target markets. We may take actions such as adjusting prices of our products, providing sales incentives and increasing expenditure on advertising in order to be competitive in the market, which may in turn materially and adversely affect our profit margins and other results of operations. Please see "Risk Factors — Risks Relating to Our Business and Our Industry — We operate in a fragmented and highly competitive market. If we fail to compete effectively, our market share and profit margins may decline" for more details.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

The methods, estimates and judgments we use in applying our accounting policies have a significant impact on our financial position and operating results. Some of the accounting policies require us to apply estimates and judgments on matters that are inherently uncertain. Set forth below are discussions of the accounting policies applied in preparing our financial information that we believe are most dependent on the application of these estimates and judgments, and, in addition, certain other accounting policies that we believe are material to an understanding of our financial information.

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We made a final assessment of the potential impact of each new and revised IFRS that have been issued but are not effective and have concluded that the adoption of each new and revised IFRS is unlikely to have a significant impact on our results of operations and financial position.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable; provided it is probable that the economic benefits will flow to us and the revenue and costs, if applicable, can be measured reliably. Revenue from sale of goods is recognized when goods are delivered and when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax and is after deduction of any trade discounts.

Inventories; net realizable value of inventories

Inventories are carried at the lower of cost and net realizable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the experience of selling products with similar nature. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down made in prior years and affect our net assets value. We reassess these estimates at the end of each reporting period.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the year in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the year the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

Trade and Other Receivables; Impairment of Trade and Other Receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

Trade and other receivables are derecognized if substantially all the risks and rewards of ownership of the trade and other receivables are transferred. If substantially all the risks and rewards of ownership of trade and other receivables are retained, the trade and other receivables continue to be recognized in the consolidated statements of financial position.

We estimate the impairment allowances for trade and other receivables by assessing the recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgments. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. We reassess the impairment allowances at the end of each reporting period.

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RESULTS OF OPERATIONS

The following table sets forth selected items of our consolidated statements of comprehensive income for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB'000			RMB'000	
Turnover	326,974	392,369	519,987	176,548	253,185
Cost of sales	(195,554)	(248,460)	(324,173)	(113,090)	(158,546)
Gross profit	131,420	143,909	195,814	63,458	94,639
Other revenue	155	619	218	154	230
Other net (loss)/income	(66)	(98)	1	3	(781)
Selling and distribution expenses	(33,808)	(43,053)	(49,542)	(19,103)	(22,509)
Administrative and other operating expenses	(9,007)	(11,316)	(13,233)	(5,621)	(12,262)
Profit from operations	88,694	90,061	133,258	38,891	59,317
Finance costs	(1,877)	(2,179)	(2,477)	(1,094)	(1,582)
Profit before taxation	86,817	87,882	130,781	37,797	57,735
Income tax	(10,872)	(10,559)	(15,343)	(4,042)	(15,507)
Profit for the year/period	<u>75,945</u>	<u>77,323</u>	<u>115,438</u>	<u>33,755</u>	<u>42,228</u>

PRINCIPAL COMPONENTS OF STATEMENTS OF COMPREHENSIVE INCOME

Turnover

During the Track Record Period, we derive our turnover primarily from sale of our products to distributors on a wholesale basis. Turnover represents the net value of goods sold less returns, discounts and value added taxes. Our distributors have no right to return purchased goods to us except when the products are defective.

The table below sets forth our revenue by product/service category for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Apparel	312,177	95.5	363,735	92.7	515,898	99.2	174,022	98.5	252,550	99.7
Accessories	793	0.2	3,856	1.0	378	0.1	162	0.1	—	—
Footwear	—	—	15,140	3.9	969	0.2	455	0.3	—	—
OEM services ...	14,004	4.3	9,638	2.4	2,742	0.5	1,909	1.1	635	0.3
Total turnover ..	<u>326,974</u>	<u>100.0</u>	<u>392,369</u>	<u>100.0</u>	<u>519,987</u>	<u>100.0</u>	<u>176,548</u>	<u>100.0</u>	<u>253,185</u>	<u>100.0</u>

Sales of apparel products accounted for substantially all of our turnover during the Track Record Period. Turnover contribution from accessories and footwear increased from 2010 to 2011 and subsequently decreased in 2012. In 2011, we experimented with developing a footwear product line and expanding our accessory product offering to include backpacks for children. We hired an ODM to design and manufacture footwear products and another ODM to design and manufacture

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children’s backpacks for us. As these ODMs did not fully grasp our brand culture and brand image, the products they designed and manufactured did not match the style of our apparel products and, as a result, did not generate synergy in retail outlets. We ended these product lines in 2011 and did not place any additional orders in 2012. In 2011, we sold a majority of the footwear products and backpacks we procured, and the remainder were sold in 2012.

Our turnover derived from OEM services decreased over the Track Record Period as we continued to shift our focus to the development and sale of products under our own “redkids” brand.

The table below sets forth our turnover by sales channel for the periods indicated:

	Year ended December 31,						Six months ended June 30,					
	2010		2011		2012		2012		2013			
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%		
Turnover												
Sales to												
distributors ⁽¹⁾	312,182	95.5	352,972	90.0	429,418	82.6	150,134	85.0	215,454	85.0		
Sales to online												
distributor ⁽²⁾	788	0.2	29,759	7.6	87,827	16.9	24,505	13.9	37,096	14.7		
OEM services	14,004	4.3	9,638	2.4	2,742	0.5	1,909	1.1	635	0.3		
Total	326,974	100.0	392,369	100.0	519,987	100.0	176,548	100.0	253,185	100.0		

Note:

(1) “Sales to distributors” represents turnover derived from our sales to distributors excluding Red Kids E-commerce, our online distributor.

(2) “Sales to online distributor” represents turnover derived from our sales to Red Kids E-commerce, our online distributor.

To capture the significant market potential for sales of children’s apparel through online sales platforms at the beginning of the Track Record Period, we have authorized Red Kids E-commerce as our online distributor since 2010. Through our distinct designs tailored for the online consumer group and our marketing efforts in collaboration with Red Kids E-commerce, our designated online distributor, and some online sales platforms, our online customer base expanded rapidly and sales to our online distributor increased significantly during the Track Record Period.

The table below sets forth our sales volume and average selling price for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
Sales volume (million units)	6.9	7.6	8.9	4.3	5.6
Average wholesale selling price (RMB)	47.4	51.3	58.3	40.7	45.2

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Cost of Sales

Cost of sales primarily includes cost of raw materials, direct labor and overhead for our in-house production, and purchases of products from our OEMs. During the Track Record Period, we manufactured a portion of our products at our own production facility, which primarily consisted of T-shirts, shirts, tank tops, coats, pants, blouses and shorts. We outsourced to OEMs the rest of our products, which primarily included jeans, sweaters and down jackets. The following table sets forth a breakdown of our cost of sales by type for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Production										
— Raw materials	126,692	64.8	110,713	44.6	120,528	37.2	51,228	45.3	37,507	23.7
— Direct labor	27,073	13.8	23,234	9.4	24,089	7.4	11,363	10.0	7,120	4.5
— Production overhead	12,687	6.5	11,575	4.6	11,820	3.7	6,769	6.0	3,532	2.2
Purchases from OEMs	28,612	14.6	99,842	40.2	162,472	50.1	41,222	36.5	107,977	68.1
Taxes and levies	490	0.3	3,096	1.2	5,264	1.6	2,508	2.2	2,410	1.5
Total Cost of Sales . . .	<u>195,554</u>	<u>100.0</u>	<u>248,460</u>	<u>100.0</u>	<u>324,173</u>	<u>100.0</u>	<u>113,090</u>	<u>100.0</u>	<u>158,546</u>	<u>100.0</u>

Raw materials represented approximately 64.8%, 44.6%, 37.2% and 23.7%, respectively, of our total cost of sales for the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013. Raw materials primarily consist of fabrics and auxiliary materials used in our own production.

Direct labor represented approximately 13.8%, 9.4%, 7.4% and 4.5%, respectively, of our total cost of sales for the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013. Direct labor consists mainly of salaries and benefits for employees in our production operations.

Production overhead costs represented approximately 6.5%, 4.6%, 3.7% and 2.2%, respectively, of our total cost of sales for the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013. Production overhead costs mainly comprise indirect labor representing primarily staff costs for quality control, production and sourcing management team, depreciation of plant and machinery, maintenance, fuel and utilities.

Purchases from OEMs represented 14.6%, 40.2%, 50.1% and 68.1%, respectively, of our total cost of sales for the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013. Our purchases from OEMs increased significantly during the Track Record Period because we made the strategic decision to focus our resources and management's attention on aspects other than manufacturing that we believe contribute more value to our business, such as brand management and sales and marketing. As a result, we did not expand our production capacity as our sales volume increased; instead, we increased the proportion of outsourced production.

Taxes and levies represented 0.3%, 1.2%, 1.6% and 1.5% of our total cost of sales for the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively. Taxes primarily include urban construction tax and other levies, which are charged by PRC local government. Beginning in December 2010, foreign invested enterprises are required to pay urban construction tax and education levy.

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The table below sets forth a breakdown of our cost of sales by product category for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Apparel	184,800	94.5	230,563	92.8	321,302	99.1	111,237	98.4	158,141	99.7
Accessories	575	0.3	2,199	0.9	252	0.1	101	0.1	—	—
Footwear	—	—	9,044	3.6	653	0.2	282	0.2	—	—
OEM services	10,179	5.2	6,654	2.7	1,966	0.6	1,470	1.3	404	0.3
Total cost of sales	195,554	100.0	248,460	100.0	324,173	100.0	113,090	100.0	158,546	100.0

Gross Profit and Gross Profit Margin

For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our gross profit was approximately RMB131.4 million, RMB143.9 million, RMB195.8 million and RMB94.6 million, respectively, and our gross profit margin for the same periods was 40.2%, 36.7%, 37.7% and 37.4%, respectively.

The table below sets forth our gross profit and gross profit margin by product/service category for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2010		2011		2012		2012		2013	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Apparel	127,377	40.8	133,172	36.6	194,596	37.7	62,785	36.1	94,409	37.4
Accessories	218	27.5	1,656	43.0	126	33.4	60	37.4	—	—
Footwear	—	—	6,097	40.3	316	32.6	173	38.1	—	—
OEM services	3,825	27.3	2,984	31.0	776	28.3	439	23.0	230	36.3
Total	131,420	40.2	143,909	36.7	195,814	37.7	63,458	35.9	94,639	37.4

Our gross profit margin for apparel decreased for the year ended December 31, 2011 compared with the year ended December 31, 2010 primarily because we did not increase the wholesale selling price of our products in proportion to the increase in cost of sales in order to strengthen our competitive position in our industry. Our gross profit margin for apparel increased for the year ended December 31, 2012 compared with the year ended December 31, 2011 primarily due to the increase in average wholesale selling price of our products as a result of our enhanced brand recognition and market position. Our gross profit margins for accessories and footwear for 2011 increased compared with 2010 as we began sales of backpacks and footwear products in 2011. Our gross profit margins for accessories and footwear decreased for 2012 compared with 2011 as we discontinued these products and sold remaining inventories in 2012 at a discount to the original sale prices that were set in 2011. Our gross margin for OEM services was higher for 2011 as the products involved required more complex production techniques and we were able to generate a higher profit. Our gross profit margin increased for the six months ended June 30, 2013 compared with the six months ended June 30, 2012 primarily due to the increase in the gross profit margin for our products sold to our online distributor, Red Kids E-commerce. The increase in the average wholesale selling price of our products sold to Red Kids E-commerce outpaced the increase in the average cost of such products as a result of our enhanced brand recognition among online consumers.

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The table below sets forth our gross profit and gross profit margin by distribution channel for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2010		2011		2012		2012		2013	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Sales to distributors	127,366	40.8	130,407	36.9	163,608	38.1	56,283	37.5	78,775	36.6
Sales to online distributor	322	40.9	10,625	35.7	31,463	35.8	6,736	27.5	15,634	42.1
OEM services	3,732	26.6	2,877	29.8	743	27.1	439	23.0	230	36.3
Total	<u>131,420</u>	40.2	<u>143,909</u>	36.7	<u>195,814</u>	37.7	<u>63,458</u>	35.9	<u>94,639</u>	37.4

Other Revenue and Other Net (Loss)/Income

Other revenue and other net (loss)/income primarily consist of interest income from bank deposits, government grants, sampling fees from our OEM customers, and net foreign exchange (loss)/gain. Government grants represent cash subsidies and tax refund provided by local government for the exported products that we produced for our OEM customers. These subsidies are non-recurring and the amounts of subsidies are discretionary in nature. We receive fees for sample creation in our OEM service business. In 2011, we reviewed such fees we had received but not recognized during prior years, and recorded such fees as other revenue for the year ended December 31, 2011. As a result, our other revenue for 2011 was higher than 2010 and 2012. The following table sets forth a breakdown of our other revenue and other net (loss)/income for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB'000			RMB'000	
Other Revenue					
Interest income	33	258	212	154	230
Government grants	114	—	6	—	—
Others	8	361	—	—	—
	<u>155</u>	<u>619</u>	<u>218</u>	<u>154</u>	<u>230</u>
Other Net (Loss)/Income					
Net foreign exchange (loss)/gain	(66)	(98)	1	3	(781)
	<u>(66)</u>	<u>(98)</u>	<u>1</u>	<u>3</u>	<u>(781)</u>
Total Other Revenue and Other Net (Loss)/Income	<u>89</u>	<u>521</u>	<u>219</u>	<u>157</u>	<u>(551)</u>

Selling and Distribution Expenses

Selling and distribution expenses primarily consist of (i) marketing reimbursements, which include reimbursements to our distributors under our distributor support program for fixture and store display expenses upon the opening of new retail outlets and expenses incurred by our distributors for marketing and promotional activities; (ii) salaries and benefits for sales and marketing personnel; (iii) office and utilities costs; (iv) packaging costs and (v) advertising and exhibition expenses including television advertisements and outdoor advertisements. For the three

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years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our selling and distribution expenses were approximately RMB33.8 million, RMB43.1 million, RMB49.5 million and RMB22.5 million, respectively. In 2011, advertising and exhibition expenses increased as we incurred approximately RMB4.7 million of expenses for television commercials and outdoor advertisements. In 2012, we reduced the use of television commercials and outdoor advertisements and relied on various other means of advertising, which were less expensive and we believe are more effective in reaching our target consumer groups. We ceased using television commercials in 2013. The following table sets forth a breakdown of our selling and distribution expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Marketing										
reimbursements	27,533	81.4	29,751	69.1	38,777	78.3	14,031	73.4	18,157	80.6
Staff costs	2,967	8.8	4,618	10.7	5,115	10.3	2,345	12.3	2,483	11.0
Advertising and exhibition										
expenses	1,281	3.8	6,427	14.9	2,382	4.8	1,188	6.2	511	2.3
Packaging costs	909	2.7	1,139	2.6	1,589	3.2	686	3.6	735	3.3
Office and utilities costs . . .	112	0.3	364	0.8	975	2.0	393	2.1	404	1.8
Travelling costs	106	0.3	269	0.6	308	0.6	203	1.1	94	0.4
Others	900	2.7	485	1.1	396	0.8	257	1.3	125	0.6
Total Selling and										
Distribution Expenses . .	<u>33,808</u>	<u>100.0</u>	<u>43,053</u>	<u>100.0</u>	<u>49,542</u>	<u>100.0</u>	<u>19,103</u>	<u>100.0</u>	<u>22,509</u>	<u>100.0</u>

For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our selling and distribution expenses represented 10.3%, 11.0%, 9.5% and 8.9%, respectively, of our turnover for the relevant periods.

Administrative and Other Operating Expenses

Our administrative and other operating expenses primarily consist of salaries and benefits for administrative personnel, research and development expenses, fees for professional expenses in relation to legal service and pre-IPO financial advisory services, travelling expenses, other taxes, levies and subcharges and depreciation expenses relating to property, plant and equipment used for administrative purposes. For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our administrative and other operating expenses were RMB9.0 million, RMB11.3 million, RMB13.2 million and RMB12.3 million, respectively.

Other taxes, levies and subcharges primarily consist of stamp duty charges.

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The following table sets forth a breakdown of our administrative and other operating expenses for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Staff cost	3,175	35.3	3,998	35.3	4,424	33.4	1,957	34.8	2,302	18.8
Research and development expenses	1,859	20.6	2,116	18.7	2,787	21.1	1,152	20.5	3,763	30.7
Professional expenses	288	3.2	1,470	13.0	1,469	11.1	297	5.3	1,993	16.2
Depreciation and amortization	839	9.3	1,411	12.5	1,350	10.2	681	12.1	663	5.4
Office and utilities expenses	1,060	11.8	804	7.1	1,171	8.8	469	8.3	546	4.5
Other taxes, levies and subcharges	689	7.6	367	3.2	682	5.2	582	10.4	516	4.2
Travelling expenses	542	6.0	509	4.5	617	4.7	253	4.5	436	3.6
Listing expenses	—	—	—	—	—	—	—	—	1,388	11.3
Others ⁽¹⁾	555	6.2	641	5.7	733	5.5	230	4.1	655	5.3
Total Administrative and Other Operating Expenses	<u>9,007</u>	<u>100.0</u>	<u>11,316</u>	<u>100.0</u>	<u>13,233</u>	<u>100.0</u>	<u>5,621</u>	<u>100.0</u>	<u>12,262</u>	<u>100.0</u>

(1) "Others" mainly include costs relating to consumables, bank charges and entertainment expenses.

For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our administrative and other operating expenses represented 2.8%, 2.9%, 2.5% and 4.8% of our turnover for the relevant periods, respectively.

Finance Costs

Our finance costs represent interest on bank loans. Our finance costs were RMB1.9 million, RMB2.2 million, RMB2.5 million and RMB1.6 million for the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively.

Income Tax

Income tax consists of current tax and movements in deferred tax assets and liabilities. Current tax comprises primarily PRC corporate income tax payable by our PRC subsidiaries. Deferred tax comprises mainly movement in deferred tax assets on recognized deductible temporary differences arising from accrued expenses.

Under the relevant rules and regulations of the Cayman Islands and the BVI, we are not subject to any income tax in the Cayman Islands or the BVI.

No provision was made for Hong Kong Profits Tax as the Group did not earn any assessable profit subject to Hong Kong Profits Tax during the Track Record Period.

As a foreign-invested enterprise engaged in the manufacturing business, our PRC operating subsidiary, Red Kids China, was entitled to two-year tax exemption followed by 50% reduction in the income tax rate commencing from its first profit making year. Accordingly, it is subject to income tax rate of 12.5% from 2010 to 2012 and 25% from 2013 onwards.

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Our income tax expenses for the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 were RMB10.9 million, RMB10.6 million, RMB15.3 million and RMB15.5 million, respectively. Our effective tax rates for the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 were 12.5%, 12.0%, 11.7% and 26.9%, respectively.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six months ended June 30, 2013 compared with six months ended June 30, 2012

Turnover

Our turnover increased by RMB76.7 million, or 43.5%, from RMB176.5 million for the six months ended June 30, 2012 to RMB253.2 million for the six months ended June 30, 2013. The increase primarily reflects the increase in the average wholesale selling price of our products from RMB40.7 to RMB45.2 and the increase from 4.3 million to 5.6 million in the volume of products we sold to our distributors. Our average wholesale selling price and sales volume increased for the six months ended June 30, 2013 compared to the same period in 2012 primarily as a result of our further enhanced brand recognition and market acceptance of our products. Our sales volume increased primarily as a result of the increase in sales to our online distributor, RedKids E-commerce, the further enhanced recognition of our brand and the increase in the number of retail outlets for our branded products.

Cost of sales

Our cost of sales increased by RMB45.4 million, or 40.1%, from RMB113.1 million for the six months ended June 30, 2012 to RMB158.5 million for the six months ended June 30, 2013. The increase was primarily due to the increase in our sales volume and the increases in the average cost of raw materials and labor costs.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by RMB31.1 million, or 49.0%, to RMB94.6 million for the six months ended June 30, 2013 from RMB63.5 million for the six months ended June 30, 2012. Our gross profit margin increased from 35.9% for the six months ended June 30, 2012 to 37.4% for the six months ended June 30, 2013, which was primarily due to the increase in average wholesale selling price of our products sold to our online distributor, Red Kids E-commerce, as a result of enhanced recognition of our brand among online customers.

Other revenue and other net (loss)/income

Our other revenue and other net income decreased from RMB0.2 million for the six months ended June 30, 2012 to a loss of RMB0.6 million for the six months ended June 30, 2013. The decrease was primarily because of our net foreign exchange losses relating to cash proceeds from our pre-IPO investment, which we received in Hong Kong dollars and exchanged into RMB.

Selling and distribution expenses

Our selling and distribution expenses increased by RMB3.4 million, or 17.8%, from RMB19.1 million for the six months ended June 30, 2012 to RMB22.5 million for the six months

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ended June 30, 2013. The increase was primarily due to an increase in marketing reimbursements, which include expenses incurred by our distributors for marketing and promotional activities and reimbursement to distributors for fixture and store display expenses incurred when opening retail outlets or upgrading existing outlets. This increase was partially offset by a decrease in advertising and exhibition expenses following our termination of television advertisements and reduction in outdoor advertisements.

Administrative and other operating expenses

Our administrative and other operating expenses increased by RMB6.7 million, from RMB5.6 million for the six months ended June 30, 2012 to RMB12.3 million for the six months ended June 30, 2013. This increase was primarily due to increases in (i) listing expenses relating to fees for legal, accounting, financial advisory and other professional services; (ii) research and development expenses relating to rental costs for and renovation of our design and research and development center in Shanghai; and (iii) professional expenses resulting from pre-IPO financial advisory services in relation to the Corporate Reorganization.

Finance costs

Our finance costs increased by RMB0.5 million, or 45.5%, from RMB1.1 million for the six months ended June 30, 2012 to RMB1.6 million for the six months ended June 30, 2013. The increase was primarily due to increased short-term bank loans borrowed for working capital purposes.

Income tax

Our income tax increased by RMB11.5 million, from RMB4.0 million for the six months ended June 30, 2012 to RMB15.5 million for the six months ended June 30, 2013. The increase was primarily due to an increase in our taxable income and an increase in our effective tax rate as a result of the expiration of the reduced enterprise income tax rate of 12.5% for our PRC subsidiary, Red Kids China.

Profit for the period

As a result of the foregoing, our profit for the period increased by RMB8.4 million, or 24.9%, from RMB33.8 million for the six months ended June 30, 2012 to RMB42.2 million for the six months ended June 30, 2013.

Year ended December 31, 2012 compared with year ended December 31, 2011

Turnover

Our turnover increased by RMB127.6 million, or 32.5%, from RMB392.4 million for the year ended December 31, 2011 to RMB520.0 million for the year ended December 31, 2012, primarily as a result of the increase in the average wholesale selling price of our products from RMB51.3 to RMB58.3 and the increase from 7.6 million to 8.9 million in the volume of products we sold to our distributors. Our average wholesale selling price increased from 2011 to 2012 primarily as a result of our enhanced brand recognition and market acceptance of our products. Our sales volume increased primarily as a result of (i) the significant increase in our sales to our online distributor, Red Kids E-commerce, (ii) the increase in the total number of retail outlets from 560 as of December 31, 2011 to 594 as of December 31, 2012, and (iii) we moved shipment

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date of 2013 spring/summer collection from early 2013 to December 2012 due to industry-wide trends to extend sales window of spring collection. Sales to Red Kids E-commerce increased by 194.6% from RMB29.8 million for 2011 to RMB87.8 million for 2012 because (i) there was a further shift in 2012 in consumer habit towards online shopping; (ii) we devoted significant resources to developing online sales of our products, including designing products specifically targeting the younger parents who comprised a large portion of online customers and promoting our products on various online sales platforms; and (iii) our online distributor participated in a few major national online shopping events in 2012, such as the “November 11” and “December 12” national online sales days. The early delivery of the 2013 spring/summer collection from early 2013 to December 2012 increased our turnover in 2012 by RMB45.3 million.

Cost of sales

Our cost of sales increased by RMB75.7 million, or 30.5%, from RMB248.5 million for the year ended December 31, 2011 to RMB324.2 million for the year ended December 31, 2012. This increase was mainly due to the increase in our sales volume and the general increase in the cost of raw materials and labor in China. Our average cost of sales per unit increased from RMB32.5 for the year ended December 31, 2011 to RMB36.3 for the year ended December 31, 2012 primarily as a result of increases in raw material prices and labor costs, which affected both our own production and cost of our purchased products.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by RMB51.9 million, or 36.1%, from RMB143.9 million for the year ended December 31, 2011 to RMB195.8 million for the year ended December 31, 2012. The early delivery of the 2013 spring/summer collection from early 2013 to December 2012 increased our gross profit in 2012 by RMB14.4 million. Our gross profit margin increased from 36.7% for 2011 to 37.7% for 2012, primarily because the increase in average wholesale selling price of our products was higher than the increase in the per unit average cost of our products.

Other revenue and other net (loss)/income

Our other revenue and other net (loss)/income decreased by RMB0.3 million, or 60.0% from RMB0.5 million for the year ended December 31, 2011 to RMB0.2 million for the year ended December 31, 2012. This decrease was primarily as a result of a decrease in the sample creation fees from our OEM customers which was partially offset by an increase in net foreign exchange gain in 2012.

Selling and distribution expenses

Our selling and distribution expenses increased by RMB6.4 million, or 14.8%, from RMB43.1 million for the year ended December 31, 2011 to RMB49.5 million for the year ended December 31, 2012. This increase was primarily due to the increase in marketing reimbursements, which include expenses incurred by our distributors for marketing and promotional activities and reimbursement to distributors for fixture and store display expenses incurred when opening new retail outlets or upgrading existing outlets. This increase was partially offset by a decrease in advertising and exhibition expenses following our reduction of television commercials and outdoor advertisements.

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Administrative and other operating expenses

Administrative and other operating expenses increased by RMB1.9 million, or 16.8%, from RMB11.3 million for the year ended December 31, 2011 to RMB13.2 million for the year ended December 31, 2012. This increase was primarily as a result of increases in the salaries and benefits of our administrative personnel in line with general increases in salary levels in the PRC, office and utilities expenses and research and development expenses. The increase in research and development expenses was due to the hiring of designers for our Shanghai design center, which commenced operations in 2012. The increase in office and utilities expenses primarily resulted from the increase in the number of our staff.

Finance costs

Our finance costs increased by RMB0.3 million, or 13.6%, from RMB2.2 million for the year ended December 31, 2011 to RMB2.5 million for the year ended December 31, 2012. This increase was primarily as a result of the general increase in interest rate in the PRC and the increase in the total outstanding amount of our bank loans.

Income tax

Our income tax increased significantly by RMB4.7 million, or 44.3%, from RMB10.6 million for the year ended December 31, 2011 to RMB15.3 million for the year ended December 31, 2012, primarily as a result of the increase in our taxable income.

Profit for the year

As a result of the foregoing, our results improved significantly from a net profit of RMB77.3 million for the year ended December 31, 2011 to a net profit of RMB115.4 million for the year ended December 31, 2012. The early delivery of the 2013 spring/summer collection from early 2013 to December 2012 increased our net profit in 2012 by approximately RMB10.0 million. The estimated increase in our net profit as a result of early delivery of 2013 spring/summer collection was calculated based on our net profit margin for the year ended December 31, 2012 and is included for illustrative purposes only.

Year ended December 31, 2011 compared with year ended December 31, 2010

Turnover

Our turnover increased by RMB65.4 million, or 20.0%, from RMB327.0 million for the year ended December 31, 2010 to RMB392.4 million for the year ended December 31, 2011, primarily as a result of the increase in the average wholesale selling price of our products from RMB47.4 to RMB51.3 and the increase from 6.9 million to 7.6 million in the volume of products we sold to our distributors. Our average wholesale selling price increased from 2010 to 2011 primarily as a result of our enhanced brand recognition and market acceptance of our products. Our sales volume increased primarily as a result of the increase in the total number of retail outlets from 476 as of December 31, 2010 to 560 as of December 31, 2011 following our focused efforts to expand our distribution network.

Cost of sales

Our cost of sales increased by RMB52.9 million, or 27.0%, from RMB195.6 million for the year ended December 31, 2010 to RMB248.5 million for the year ended December 31, 2011. The

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increase in cost of sales mainly resulted from the increase in our sales volume and labor and raw material costs in China. Our average cost of sales per unit increased from RMB28.3 for the year ended December 31, 2010 to RMB32.5 for the year ended December 31, 2011, primarily due to increases in raw material prices and labor costs, which affected both our own production and cost of our purchased products.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by RMB12.5 million, or 9.5%, from RMB131.4 million for the year ended December 31, 2010 to RMB143.9 million for the year ended December 31, 2011. Our gross profit margin decreased from 40.2% in 2010 to 36.7% in 2011. The decrease in our gross profit margin during this period was mainly because we did not increase the wholesale selling price of our products in proportion to the increase in cost of sales in order to strengthen our competitive position in the industry.

Other revenue and other net (loss)/income

Our other revenue and other net (loss)/income increased from RMB0.1 million for the year ended December 31, 2010 to RMB0.5 million for the year ended December 31, 2011. This increase was primarily as a result of an increase in interest income due to increased bank deposits we pledged as security for bank acceptance bills, which we use to make payments to our suppliers, and fees we recognized relating to the creation of samples for our OEM customers. This increase was partially offset by a decrease in government grants because they were non-recurring in nature.

Selling and distribution expenses

Our selling and distribution expenses increased by RMB9.3 million, or 27.5%, from RMB33.8 million for the year ended December 31, 2010 to RMB43.1 million for the year ended December 31, 2011. This increase was primarily as a result of the increase in advertising and exhibition expenses, salaries and benefits for our sales and marketing staff and marketing reimbursements. Our advertising and exhibition expenses increased significantly in 2011 as a result of our participation in product conventions, television advertisements with CCTV and outdoor advertisements. In 2011, we incurred approximately RMB4.7 million of expenses in connection with television and outdoor advertisement. Our marketing reimbursements increased primarily because we incurred expenses in connection with the retail outlets we opened in 2011 for related store display and promotional activities. The increase in the salaries and benefits for our sales and marketing staff primarily resulted from the expansion of our sales and marketing team and a general increase in salary level in the PRC.

Administrative and other operating expenses

Administrative and other operating expenses increased by RMB2.3 million, or 25.6%, from RMB9.0 million for the year ended December 31, 2010 to RMB11.3 million for the year ended December 31, 2011. This increase was primarily as a result of increases in salaries and benefits for administrative and design and research and development personnel, professional expenses relating to legal service and pre-IPO financial advisory services and depreciation and amortization expenses.

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Finance costs

Our finance costs increased significantly by RMB0.3 million, or 15.8%, from RMB1.9 million for the year ended December 31, 2010 to RMB2.2 million for the year ended December 31, 2011. This increase was primarily as a result of the increase in the total amount of bank loans outstanding throughout 2011.

Income tax

Our income tax decreased by RMB0.3 million, or 2.8%, from RMB10.9 million for the year ended December 31, 2010 to RMB10.6 million for the year ended December 31, 2011, primarily as a result of our use of deferred tax assets to offset income tax payable in 2011. In 2010, we made provision for marketing reimbursements payable, which primarily included marketing expense reimbursements for our distributors. We paid income tax for the year 2010 for the amount of the provision, while the payments for such marketing expense reimbursements were actually made in 2011. As a result, we recorded deferred tax assets for 2010, which we utilized in 2011 to offset current income tax payable.

Profit for the year

As a result of the foregoing, our results improved from a net profit of RMB75.9 million for the year ended December 31, 2010 to a net profit of RMB77.3 million for the year ended December 31, 2011.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to fund our working capital requirements, property, plant and equipment and to repay loans and related interest expenses. To date, we have funded our operations principally with cash generated from our operations, capital contributions from our Shareholders and bank loans. In the future, we believe that our liquidity requirements will be satisfied with a combination of cash flows generated from our operating activities, bank loans and other borrowings, net proceeds from the Global Offering and other funds raised from the capital markets from time to time. Any significant decrease in demand for, or pricing of, our products or a significant decrease in the availability of bank loans may adversely impact our liquidity.

Cash flow

As of December 31, 2010, 2011 and 2012 and June 30, 2013, we had cash and cash equivalents of RMB55.2 million, RMB4.0 million, RMB8.9 million and RMB186.4 million, respectively. The following table sets forth our cash flows for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB'000			RMB'000	
Net cash (used in)/generated from operating activities	(8,359)	(2,318)	15,137	33,945	108,714
Net cash (used in)/generated from investing activities	(2,395)	(298)	145	108	(51,520)
Net cash generated from/(used in) financing activities	61,531	(49,586)	(10,392)	(15,511)	118,590
Net increase/(decrease) in cash and cash equivalents	50,777	(52,202)	4,890	18,542	175,784
Cash and cash equivalents at January 1	3,693	55,210	4,004	4,004	8,894
Effect of foreign exchange rate changes	740	996	—	(7)	1,746
Cash and cash equivalents at December 31/June 30	<u>55,210</u>	<u>4,004</u>	<u>8,894</u>	<u>22,539</u>	<u>186,424</u>

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Cash flows (used in)/generated from operating activities

For the six months ended June 30, 2013, our net cash generated from operating activities amounted to RMB108.7 million, primarily reflecting our profit before taxation of RMB57.7 million, as positively adjusted primarily by (i) RMB60.6 million decrease in trade and other receivables which resulted from (a) us moving the delivery date of our 2013 spring/summer collection from early 2013 to December 2012 because of feedback we had received from our distributors in 2011 with regard to the extension of the sales window of our spring/summer collection and (b) our trade receivables as of June 30, 2013 primarily include sales of our spring/summer collection which has a lower average wholesale selling price than our fall/winter collection, and (ii) RMB1.9 million decrease in pledged deposits, and partially offset by (i) RMB3.3 million increase in inventories which resulted from increases in our work in progress goods and finished goods due to larger volumes of our products produced. The increase in our volume of products produced was in line with the growth in our sales; and (ii) a PRC income tax payment of RMB14.0 million.

For the year ended December 31, 2012, our net cash generated from operating activities amounted to RMB15.1 million, primarily reflecting our profit before taxation of RMB130.8 million, as positively adjusted primarily by (i) RMB53.9 million decrease in inventories because (a) our sales increased significantly in 2012 compared with 2011, in particular during the last quarter of 2012, (b) we had less raw materials and work in progress in stock as we outsourced the production of a higher percentage of our products, and (c) we moved the delivery date of our 2013 spring collection from early 2013 to December 2012 and, as a result, finished goods balance as of December 31, 2012 decreased as compared with December 31, 2011 and (ii) RMB5.7 million non-cash operating profit and loss items including depreciation, amortization, finance costs and interest income, and partially offset primarily by (i) RMB139.7 million increase in trade and other receivables which resulted from our overall sales growth and significant sales increase in the last quarter of 2012 because (a) we moved shipment date of 2013 spring/summer collection from early 2013 to December 2012 and (b) sales to our online distributor increased significantly in the last quarter due in part to certain major national online shopping events our online distributor participated in, such as the “November 11” and “December 12” national online sales days, (ii) RMB19.3 million decrease in trade and other payables to our suppliers, OEMs and related parties, (iii) RMB1.0 million increase in pledged deposits and (iv) a PRC income tax payment of RMB15.3 million.

For the year ended December 31, 2011, our net cash used in operating activities amounted to RMB2.3 million, primarily reflecting our profit before taxation of RMB87.9 million, as positively adjusted primarily by RMB5.6 million of non-cash operating profit and loss items including depreciation, amortization, finance costs and interest income, and offset primarily by (i) RMB50.5 million increase in trade and other receivables which resulted from the growth in our overall sales and the increase from 30 days to 90 days in the credit period we granted to customers, (ii) RMB20.3 million decrease in trade and other payables as we paid back our suppliers, OEMs and related parties, (iii) RMB11.2 million increase in inventories primarily as a result of an increase in our raw materials and work in progress goods due to our business growth, (iv) RMB2.9 million increase in pledged deposits, which were bank deposits pledged as security for bills payables and (v) a PRC income tax payment of RMB10.9 million.

For the year ended December 31, 2010, our net cash used in operating activities amounted to RMB8.4 million, primarily reflecting our profit before taxation of RMB86.8 million, as positively adjusted primarily by (i) RMB4.9 million of non-cash operating profit and loss items including

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depreciation, amortization, finance costs and interest income, (ii) RMB0.6 million decrease in pledged deposits, which were bank deposits pledged as security for bills payables and (iii) RMB10.2 million increase in trade and other payables due to our suppliers, and offset primarily by (i) RMB76.0 million increase in trade and other receivables which resulted from the overall growth in our sales, (ii) RMB28.7 million increase in inventories primarily as a result of an increase in our finished goods due to the growth in our overall sales, and (iii) a PRC income tax payment of RMB6.2 million.

Cash flows (used in)/generated from investing activities

For the six months ended June 30, 2013, our net cash used in investing activities amounted to RMB51.5 million, primarily reflecting our cash outflows of RMB51.7 million for the purchase of property, plant and equipment, which were partially offset by RMB0.2 million of interest received on our bank deposits.

For the year ended December 31, 2012, our net cash generated from investing activities amounted to RMB0.1 million, primarily reflecting cash inflow of RMB0.2 million from the interest received on our bank deposits, which were partially offset by RMB0.1 million of payments for the purchase of property, plant and equipment.

For the year ended December 31, 2011, our net cash used in investing activities amounted to RMB0.3 million, reflecting cash outflows primarily due to an RMB0.6 million payment for the purchase of property, plant and equipment, which were partially offset by RMB0.3 million of interest received on our bank deposits.

For the year ended December 31, 2010, our net cash used in investing activities amounted to RMB2.4 million, reflecting cash outflows primarily due to an RMB2.5 million payment for the purchase of property, plant and equipment, which were partially offset by RMB0.1 million of interest received on our bank deposits.

Cash flows generated from/(used in) financing activities

For the six months ended June 30, 2013, our net cash generated from financing activities amounted to RMB118.6 million, primarily reflecting cash inflows of (i) RMB90.4 million in receipts advanced from the parent company and related parties and (ii) RMB54.7 million in proceeds from bank loans, which were partially offset by (i) RMB24.9 million in repayment of bank loans and (ii) interest paid of RMB1.6 million.

For the year ended December 31, 2012, our net cash used in financing activities amounted to RMB10.4 million, primarily reflecting cash outflows of (i) RMB28.4 million in repayment of bank loans; (ii) interest payment of RMB2.5 million; and (iii) net repayment to the parent company and a related party of RMB24.3 million, which were partially offset by RMB44.8 million in proceeds from bank loans.

For the year ended December 31, 2011, our net cash used in financing activities amounted to RMB49.6 million, primarily reflecting cash outflows of (i) RMB53.5 million in repayment of our bank loans; (ii) net repayment to the parent company of RMB27.3 million and (iii) interest payment of RMB2.2 million, which were partially offset by RMB33.4 million in proceeds from bank loans.

For the year ended December 31, 2010, our net cash generated from financing activities amounted to RMB61.5 million, primarily reflecting cash inflows of (i) RMB42.5 million in

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proceeds from bank loans; and (ii) net advance from parent company and a related party of RMB46.9 million, which were partially offset by (i) RMB26.0 million in repayment of bank loans; and (ii) interest paid of RMB1.9 million.

Current Assets and Liabilities

The following table sets forth details of our current assets and liabilities as of the dates indicated:

	As of December 31,			As of June 30,	As of October 31,
	2010	2011	2012	2013	2013
	RMB'000			RMB'000	RMB'000
<i>Current assets</i>					
Inventories	70,579	81,809	27,873	31,222	36,298
Trade and other receivables	93,106	143,629	283,301	222,709	202,802
Pledged bank deposits	—	2,850	3,880	2,000	—
Cash and cash equivalents	55,210	4,004	8,894	186,424	260,817
Total current assets	<u>218,895</u>	<u>232,292</u>	<u>323,948</u>	<u>442,355</u>	<u>499,917</u>
<i>Current liabilities</i>					
Bank loans	42,500	22,400	38,800	68,590	68,940
Trade and other payables	182,445	133,069	89,483	180,787	182,438
Current tax payable	7,299	4,939	6,336	7,512	4,953
Total current liabilities	<u>232,244</u>	<u>160,408</u>	<u>134,619</u>	<u>256,889</u>	<u>256,331</u>
Net current (liabilities)/assets	<u>(13,349)</u>	<u>71,884</u>	<u>189,329</u>	<u>185,466</u>	<u>243,586</u>

As of December 31, 2010, we recorded net current liabilities of RMB13.3 million, primarily because we had RMB137.1 million in short-term loans from our Controlling Shareholder and related parties, which were used to finance our working capital needs. Our working capital position improved during the years ended December 31, 2011 and 2012.

We recorded net current assets of RMB71.9 million as of December 31, 2011. This improvement was primarily due to (i) an increase of RMB50.5 million in trade and other receivables and (ii) a decrease of RMB49.3 million in trade and other payables, as partially offset by a decrease of RMB51.2 million in cash and cash equivalents. Our trade and other receivables increased by RMB50.5 million primarily as a result of the growth in our overall sales and the increase in the credit period we granted to customers from 30 days in 2010 to 90 days in 2011. Our trade and other payables decreased by RMB49.3 million primarily as a result of decreases in (i) amounts due to related parties because we repaid some of the advances from our related parties and (ii) other payables and accruals because we first implemented our distributor support program and made accruals in 2010 but only began to make payments to distributors under this program in 2011.

We recorded net current assets of RMB189.3 million as of December 31, 2012. This improvement was primarily due to (i) an increase of RMB139.7 million in trade and other receivables and (ii) a decrease of RMB43.6 million in trade and other payables, as offset in part by (i) a decrease of RMB53.9 million in inventories and (ii) an increase of RMB16.4 million in bank loans.

Our trade and other receivables increased by RMB139.7 million primarily due to our overall sales growth and significant sales increase in the last quarter of 2012 because (i) we moved

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delivery date of 2013 spring/summer collection from early 2013 to December 2012 and (ii) sales to our online distributor increased significantly in the last quarter of 2012 due in part to certain major national online shopping events our online distributor participated in, such as the “November 11” and “December 12” national online sales days. Our trade and other payables decreased by RMB43.6 million primarily because (i) we repaid in 2012 the amount due to our Controlling Shareholder that were outstanding as of December 31, 2011 and (ii) amounts due to related parties decreased as we repaid some of the advances from our related parties. Our inventories decreased by RMB53.9 million because (i) our sales increased significantly in 2012 compared with 2011, in particular during the last quarter of 2012 and (ii) we had less raw materials and work in progress in stock as we outsourced the production of a higher percentage of our products.

We recorded net current assets of RMB185.5 million as of June 30, 2013 a result of (i) RMB222.7 million in trade and other receivables, (ii) RMB186.4 million in cash and cash equivalents, (iii) RMB2.0 million in pledged bank deposits and (iv) RMB31.2 million in inventories, which was partially offset by balances of (i) RMB180.8 million in trade and other payables, (ii) RMB68.6 million in bank loans and (iii) RMB7.5 million in current tax payable.

Working Capital

Taking into consideration our cash resources, cash flows from our operations and estimated net proceeds from the Global Offering, our Directors believe, after due and careful inquiry, that we have sufficient working capital for at least the 12 months commencing from the date of this prospectus.

Inventories

Our inventories primarily consist of (i) finished goods manufactured by us or procured from our OEMs; (ii) work in progress products manufactured by us; and (iii) raw materials used in our production.

The following table sets forth the breakdown of our inventories as of the dates indicated:

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	RMB'000			RMB'000
Raw materials	840	9,386	4,476	3,106
Work in progress	6,711	13,748	9,796	10,626
Finished goods	63,028	58,675	13,601	17,490
	70,579	81,809	27,873	31,222

Our inventories increased by 15.9% from RMB70.6 million as of December 31, 2010 to RMB81.8 million as of December 31, 2011, primarily as a result of an increase in our raw materials and work in progress goods due to our increased production. Our inventories decreased to RMB27.9 million as of December 31, 2012, primarily because (i) our sales increased significantly in 2012 compared with 2011, in particular during the last quarter of 2012; (ii) we had less raw materials and work in progress in stock as we outsourced the production of a higher percentage of our products; and (iii) we moved the delivery date of our 2013 spring/summer collection from early 2013 to December 2012, a trend which we intend to continue in the future, and, as a result, finished goods balance as of December 31, 2012 decreased as compared with

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December 31, 2011. Our inventories increased by 11.8% from RMB27.9 million as of December 31, 2012 to RMB31.2 million as of June 30, 2013, primarily because of increases in our work in progress goods and finished goods due to larger volumes of our products produced. The increase in our volume of products produced was in line with the growth in our sales.

As of June 30, 2013, 100.0% of our inventories as of December 31, 2012 had been sold or utilized. As of October 31, 2013, 99.7% of our inventories as of June 30, 2013 had been sold or utilized.

The following table sets forth our average inventory turnover days as of the dates indicated:

	As of December 31,			As of June 30,
	2010	2011	2012	2013
Average inventory turnover days ⁽¹⁾	105	112	62	34

(1) Average inventory turnover days equal to the average of the opening and closing balances of inventories of the relevant period divided by cost of sales of the relevant year and multiplied by 365/181 days.

The average inventory turnover days increased from 105 days for the year ended December 31, 2010 to 112 days for the year ended December 31, 2011 primarily as a result of the increase in raw materials as we expanded our business and production, and decreased to 62 days for the year ended December 31, 2012 and further to 34 days for the six months ended June 30, 2013 primarily as a result of the significant decrease in our inventories as of December 31, 2012 due to reasons discussed above.

Trade and Other Receivables

The following table sets forth a breakdown of our trade and other receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	RMB'000			RMB'000
Trade receivables				
— third parties	48,096	104,418	196,367	149,427
— related parties	919	11,138	5,415	8,215
Trade receivables	49,015	115,556	201,782	157,642
Prepayments to suppliers	40	4,908	42,033	62,365
Amounts due from related parties	36,091	22,663	1,000	—
Amount due from the ultimate controlling party	—	—	36,429	—
Other deposits, prepayments and receivables	7,960	502	2,057	2,702
	93,106	143,629	283,301	222,709

Trade receivables

Our trade receivables primarily relate to receivables for goods sold to distributors. Our trade receivables increased significantly from RMB49.0 million as of December 31, 2010 to RMB115.6 million as of December 31, 2011, primarily as a result of the growth in our overall sales and the increase from 30 days to 90 days in the credit period we granted to customers. Our trade receivables further increased by 74.6% from RMB115.6 million as of December 31, 2011 to RMB201.8 million as of December 31, 2012 primarily because of the overall growth in our sales

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and significant sales increase in the last quarter of 2012 because (i) we moved the delivery of 2013 spring/summer collection from early 2013 to December 2012, a trend which we intend to continue in the future, and (ii) sales to our online distributor increased significantly in the last quarter due in part to certain major national online shopping events our online distributor participated in, such as the “November 11” and “December 12” national online sales days. Our trade receivables decreased by RMB44.2 million, or 21.9%, from RMB201.8 million as of December 31, 2012 to RMB157.6 million as of June 30, 2013, primarily because (i) we moved the delivery date of our 2013 spring/summer collection from early 2013 to December 2012 according to the feedback we had received from our distributors in 2011 with regard to the extension of the sales window of our spring/summer collection and (ii) our trade receivables as of June 30, 2013 primarily include sales of our spring/summer collection which has a lower average wholesale selling price than our fall/winter collection.

We have adopted certain measures to manage our trade receivables. We have designated certain employees to follow up with our distributors regularly to collect outstanding trade receivables. In our selection of distributors in the future, we plan to conduct a more detailed review of the distributor candidates’ credit history, resources and financial capabilities to ensure that they are able to pay the purchase price within the credit period granted by us.

The following table sets forth the aging analysis of our trade receivables as of the dates indicated:

	<u>As of December 31,</u>			<u>As of June 30,</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
		<u>RMB'000</u>		<u>RMB'000</u>
Within 3 months	49,008	95,440	200,083	157,508
More than 3 month but within 6 months	7	5,426	1,698	133
More than 6 months but within 1 year	—	9,489	1	1
More than 1 year	—	5,201	—	—
	<u>49,015</u>	<u>115,556</u>	<u>201,782</u>	<u>157,642</u>

As of June 30, 2013, 100.0% of our trade receivables as of December 31, 2012 had been received. As of October 31, 2013, all of our trade receivables as of June 30, 2013 have been settled.

The following table sets forth the average turnover days of our trade receivables as of the dates indicated:

	<u>As of December 31,</u>			<u>As of June 30,</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Average turnover days of our trade receivables ⁽¹⁾	30	77	111	128

⁽¹⁾ Average turnover days of our trade receivables equal to the average of the opening and closing balances of trade and bills receivables for the relevant period divided by turnover and multiplied by 365/181 days.

The average turnover days of our trade receivables increased from 30 days for the year ended December 31, 2010 to 77 days for the year ended December 31, 2011, primarily as a result of the increase from 30 days to 90 days in the credit period we granted to customers. The average turnover days of our trade receivables further increased to 111 days for the year ended December 31, 2012 and to 128 days for the six months ended June 30, 2013. Our average turnover days increased from 2011 to 2012 primarily as a result of the significant increase in our trade

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receivables as of December 31, 2012, which in turn, was due to the fact that we moved the delivery date of our 2013 spring/summer collection from early 2013 to December 2012. Our average turnover days for the year ended December 31, 2012 and for the six months ended June 30, 2013 exceeded our 90-day credit period primarily because of the same reason as above.

The following table sets forth the sales breakdown by credit period and full payment upon delivery during the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2012 and 2013:

	For the year ended December 31,			For the six months ended June 30,	
	2010	2011	2012	2012	2013
	RMB'000			RMB'000	
Full payment upon delivery	—	—	—	—	—
Deposit in advance and a 30-day credit for remaining balance	11,912	7,488	2,742	1,909	635
30-day credit period	315,062	—	—	—	—
90-day credit period	—	384,881	517,245	174,639	252,550
Total	<u>326,974</u>	<u>392,369</u>	<u>519,987</u>	<u>176,548</u>	<u>253,185</u>

Prepayments to suppliers

The following table sets forth the aging analysis of the prepayments to suppliers as of December 31, 2010, 2011 and 2012 and June 30, 2013:

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	RMB'000			RMB'000
Within three months	—	4,904	41,339	61,280
Three to six months	36	—	690	—
Six months to 12 months	1	—	—	1,081
Over 12 months	3	4	4	4
	<u>40</u>	<u>4,908</u>	<u>42,033</u>	<u>62,365</u>

Our prepayments to suppliers increased from RMB40,000 as of December 31, 2010 to RMB4.9 million as of December 31, 2011 primarily because of the increase in proportion of products we outsourced to OEMs. In addition, the increase in prepayments to OEMs was also due to our appointment of 11 new OEMs. Due to the fact that we were new customers to such OEMs, we were generally required to pay a higher proportion of the total purchase price as prepayments. Our prepayments to suppliers further increased to RMB42.0 million as of December 31, 2012 primarily due to (i) the increase in transaction volume with our OEMs to support the growth in our business; (ii) the increase in proportion of products we outsourced to OEMs as compared to our in-house production; (iii) the Group has secured better commercial terms, including lower per unit price charged by certain OEMs for certain products through increasing its prepayments to OEMs; and (iv) the prioritized delivery by certain OEMs of the Group's 2013 spring/summer collections as mutually agreed and planned. The Directors confirm that the OEM agreements have been negotiated at arm's length basis and in good faith. We believe the our level of prepayments to OEMs in 2012 were in line with the industry practice. Our prepayments to suppliers was RMB62.4

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million as of June 30, 2013 primarily reflecting of the orders we placed for the 2013 autumn/winter collection in May/June of 2013. Such prepayment balance reflect approximately 30% of the total amount of purchase orders we placed with our OEMs for the 2013 autumn/winter collections.

During the Track Record Period, all of our prepayments to suppliers were made according to the respective purchase agreements, which in return were substantially backed-up by the sales orders placed during our two sales fairs.

Our Directors confirmed that as of October 31, 2013, 99.9% of the prepayments to suppliers as of June 30, 2013 have been settled.

Other receivables

Other receivables mainly comprise prepayments to suppliers, amounts due from related parties and the Controlling Shareholder, and other deposits, prepayments and receivables.

Other deposits, prepayments and receivables amounted to RMB8.0 million, RMB0.5 million, RMB2.1 million and RMB2.7 million as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. The significant decrease in deposits, prepayments and other receivables as of December 31, 2011 as compared to December 31, 2010 was due to repayments of advances from an independent third party, Sunsea (Fujian) Garment Ltd. (太陽海(福建)製衣有限公司). One of the directors of Sunsea (Fujian) Garment Ltd. (太陽海(福建)製衣有限公司), Mr. Ding Mingxiong, is a business contact of Mr. Ding. We advanced an interest-free loan to Sunsea (Fujian) Garment Ltd. (太陽海(福建)製衣有限公司) primarily for its working capital purposes. We believe advances of such interest-free loans amongst business contacts occur from time to time in the PRC. The significant increase in other deposits, prepayments and receivables as of December 31, 2012 as compared to December 31, 2011 was due to advances made in 2012 to an interior decoration company for materials to be used in the interior decoration of the new office we rented in Shanghai in 2012.

Amounts due from our related party, Fujian Hopeland Import & Export (福建宏潤進出口貿易有限公司), decreased from RMB36.1 million as of December 31, 2010 to RMB22.7 million as of December 31, 2011 to RMB1.0 million as of December 31, 2012, and further decreased to nil as of June 30, 2013 as a result of repayments from Fujian Hopeland Import & Export (福建宏潤進出口貿易有限公司) for advances we previously made to them for working capital purposes. Amount due from the ultimate controlling party were RMB36.4 million as of December 31, 2012 as a result of a loan to Mr. Ding for his real estate investments unrelated to our core business. This loan had been repaid in full as of May 31, 2013. Our Directors confirm that we do not intend to continue to make loans to our Controlling Shareholder after the Listing.

According to our PRC legal advisers, Jingtian & Gongcheng, such advancing activities between enterprises did not comply with certain provisions of the Lending General Provisions (貸款通則) promulgated by the PBOC in 1996. According to the Lending General Provisions (貸款通則), in a case where enterprises engage in borrowing and lending with other enterprises without authorization, the PBOC may impose a fine on the lending party in an amount equal to one to five times of the illegal proceeds generated from the lending activity, and concurrently, invalidate such lending activity. Our PRC legal adviser, Jingtian & Gongcheng, are of the view that, as we (i) did not receive any interest income from the lending activities; and (ii) we had received settlement of our advances to the third parties in May 2013, the risk of the PBOC imposing any penalty on us is low. Our Directors confirm that we will not continue such lending activities to third parties after the Listing.

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Trade and Other Payables

The following table sets forth the components of our trade and other payables as of the dates indicated:

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	RMB'000			RMB'000
Trade payables				
— third parties	6,135	2,569	4,953	9,800
Bills payable	—	5,903	6,146	5,000
Trade and bills payables	6,135	8,472	11,099	14,800
Receipts in advance				
— third parties	5,157	105	577	604
— related parties	1,606	—	—	—
Amount due to the ultimate controlling party	29,035	29,043	—	—
Amounts due to related parties	108,104	80,797	56,383	146,765
Other payables and accruals				
— marketing reimbursements	19,786	—	—	3,813
— taxes payable	2,978	5,066	9,533	6,066
— salaries and benefits	9,401	9,297	11,870	8,739
— Other payables to third parties	243	289	21	—
Total	182,445	133,069	89,483	180,787

Trade and bills payables

Trade and bills payables primarily consist of payments we owe to suppliers. Our trade and bills payables increased from RMB6.1 million as of December 31, 2010 to RMB8.5 million as of December 31, 2011 primarily because our purchases of raw materials and finished products increased in line with the increase in our sales. Our trade and bills payables further increased to RMB11.1 million as of December 31, 2012 primarily because our purchases of raw materials and finished products increased in line with the increase in our sales. Our trade and bills payable increased to RMB14.8 million as of June 30, 2013 primarily because of our purchases of raw materials and finished products increased in line with the increase in our sales.

As of October 31, 2013, 100.0% of our trade and bills payables as of June 30, 2013 had been settled.

The following table sets forth the aging analysis of our trade and bills payables as of the dates indicated:

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	RMB'000			RMB'000
Within 3 months	6,135	6,456	11,099	14,710
More than 3 months but within 6 months	—	2,001	—	90
More than 6 months but within 1 year	—	15	—	—
	6,135	8,472	11,099	14,800

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The following table sets forth the average turnover days of our trade and bills payables as of the dates indicated:

	As of December 31,			As of June 30,
	2010	2011	2012	2013
Average turnover days of trade and bills payables ⁽¹⁾	13	11	11	15

(1) Average turnover days of our trade and bills payables are equal to the average of the opening and closing balances of trade and bills payables of the relevant period divided by cost of sales and multiplied by 365 days/181 days.

The average turnover days of our trade and bills payables decreased from 13 days for the year ended December 31, 2010 to 11 days for the year ended December 31, 2011, remained the same at 11 days for the year ended December 31, 2012 and increased to 15 days for the six months ended June 30, 2013. Our average turnover days of trade and bills payables were relatively short primarily because our OEMs generally require prepayments equal to 30%–50% of the total purchase price.

Other payables

Other payables primarily consist of receipts in advance, amount due to the ultimate controlling party, amounts due to related parties, and other payables and accruals.

Receipts in advance from third parties primarily represent prepayments and deposits received from our OEM service customers, and also included prepayments from some of our distributors for 2010. Receipts in advance from third parties significantly decreased from RMB5.2 million as of December 31, 2010 to RMB0.1 million as of December 31, 2011 because we stopped requiring prepayments from distributors in 2011 and because of a decrease in our OEM service business. Even though our OEM service business continued to decrease in 2012, receipts in advance from third parties increased to RMB0.6 million as of December 31, 2012 because of a deposit received from an OEM service customer near the end of 2012.

Amount due to the ultimate controlling party primarily include an interest free loan which Mr. Ding provided to us for working capital purposes, which had been settled before December 31, 2012. Amounts due to related parties relate to represent advances to us from our related parties for working capital purposes. Amounts due to related parties which includes interest-free loans from Mr. Ding Peiyuan, Ms. Ding Lizhen and Think Wise, decreased from RMB108.1 million as of December 31, 2010 to RMB80.8 million as of December 31, 2011 and then to RMB56.4 million as of December 31, 2012 as we repaid these advances using cash generated from our operating activities. Our amounts due to related parties increased to RMB146.8 million as of June 30, 2013 because we received cash proceeds from pre-IPO investments through our related party, Think Wise. As of June 30, 2013, we have settled the amounts due to Mr. Ding Peiyuan and Ms. Ding Lizhen using internal resources. In addition, our Directors confirm that amounts due to Think Wise will be waived prior to the Listing. According to our PRC legal adviser, Jingtian & Gongcheng, interest-free loans from natural persons to corporate entities are not restricted under PRC laws and regulations. Thus, our loans from our Controlling Shareholder and related parties do not violate relevant PRC laws and regulations.

Other payables and accruals primarily include marketing reimbursements, taxes payable, accrued salaries and benefits and provision for social insurance payable. Marketing reimbursements include reimbursements to distributors under our distributor support program for fixture and store display expenses and promotional expenses, which are payable only after

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distributors have reached certain sales targets in our distribution agreements with them. Other payables and accruals decreased significantly from RMB32.4 million as of December 31, 2010 to RMB14.7 million as of December 31, 2011 primarily because our marketing reimbursements payable decreased from RMB19.8 million as of December 31, 2010 to nil as of December 31, 2011 because we first implemented our distributor support program and began accruing marketing reimbursements in 2010 but only started making payments to distributors under the distributor support program in 2011. This was partially offset by an increase in taxes payable from RMB3.0 million as of December 31, 2010 to RMB5.1 million as of December 31, 2011 as a result of the increase in our sales and taxable income. Other payables and accruals increased from RMB14.7 million as of December 31, 2011 to RMB21.4 million as of December 31, 2012 primarily because (i) taxes payable increased from RMB5.1 million as of December 31, 2011 to RMB9.5 million as of December 31, 2012 as a result of the increase in our sales and taxable income; and (ii) accrued salaries and benefits and provision for social insurance payable together increased from RMB9.3 million as of December 31, 2011 to RMB11.9 million as of December 31, 2012 as a result of the expansion of our workforce and the general increase in salary levels in the PRC. Other payables and accruals decreased from RMB21.4 million as of December 31, 2012 to RMB18.6 million as of June 30, 2013 primarily because decreases in taxes payable. Our Directors confirm that the amounts due to related parties as of June 30, 2013 represent the amount due to Think Wise, which will be waived prior to the Listing.

CAPITAL EXPENDITURES

Historical Capital Expenditures

Our capital expenditures have principally consisted of purchases of buildings, machinery, motor vehicles and furniture, fixtures and equipment and construction in progress costs. For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, we incurred capital expenditures in the amounts of RMB2.4 million, RMB0.6 million, RMB0.1 million and nil, respectively. The following table sets out our historical capital expenditures during the periods indicated:

	Year ended December 31,			Six months ended
	2010	2011	2012	June 30, 2013
	RMB'000			RMB'000
Machinery	2	41	—	—
Motor vehicles	650	—	34	—
Furnitures, fixtures and equipment	380	515	33	—
Construction in progress	1,396	—	—	—
Total	<u>2,428</u>	<u>556</u>	<u>67</u>	<u>—</u>

The capital expenditures incurred in the year ended December 31, 2010 primarily related to construction in progress costs related to our Quanzhou office and purchases of motor vehicles and office equipments. The capital expenditures incurred in the year ended December 31, 2011 primarily related to purchases of machinery and office equipments. The capital expenditure incurred in the year ended December 31, 2012 primarily related to purchases of motor vehicles and office equipment.

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Planned Capital Expenditures

We currently expect to incur an additional RMB17.3 million in capital expenditures through the year ending December 31, 2013 in relation to purchase of the property for our Shanghai office, establishment of self-operated retail outlets and enhancing our design, research and development capabilities.

We anticipate that our planned capital expenditures will be financed by capital injections from our pre-IPO investors and net proceeds from the Global Offering. The estimated amounts of expenditures set out above may vary from the actual amounts of expenditures for a variety of reasons, including changes in market conditions, competition, and other factors.

Our current plan with respect to future capital expenditures is subject to change based on the evolution of our business plan, including potential acquisitions, the progress of our capital projects, market conditions and our outlook of future business conditions. As we continue to expand, we may incur additional capital expenditures. Our ability to obtain additional funding in the future is subject to a variety of uncertainties including our future results of operations, economic, political and other conditions in the PRC, PRC government policies relating to our industry and relevant rules and regulations in the PRC and Hong Kong regarding debt and equity financing. Other than as required by law, we do not undertake any obligation to publish updates of our capital expenditure plans. See “Forward-looking Statements” in this prospectus.

CONTRACTUAL COMMITMENTS

Capital Commitments

Our capital commitments primarily relate to purchase of an office building. The following table sets forth a summary of our capital commitments as of the dates indicated:

	<u>As at December 31,</u>			<u>As at</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>June 30,</u>
	RMB'000			2013
				RMB'000
Contracted for Office building	=	=	=	<u>63,250</u>

Operating Lease Commitments

During the Track Record Period, we leased a number of properties under operating leases. The table below sets forth our future minimum lease payments payable under non-cancellable operating leases as of the dates indicated:

	<u>As of December 31,</u>			<u>As of</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>June 30,</u>
	RMB'000			2013
				RMB'000
Within 1 year	14	90	741	556
After 1 year but within 5 years	—	133	1,482	1,111
Total	<u>14</u>	<u>223</u>	<u>2,223</u>	<u>1,667</u>

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INDEBTEDNESS

Bank Loans

Our bank loans primarily consisted of short-term working capital loans. All of our total loans and bank loans as of December 31, 2010, 2011 and 2012 were due within one year and were unsecured. Our total loans and bank loans as of June 30, 2013 were due within one year and RMB28.0 million of our bank loans were secured by lease prepayments and three of our buildings in Quanzhou City. Our bank loans as of December 31, 2010, 2011 and 2012 and June 30, 2013, for the purpose of calculating our indebtedness, were as follows:

	As of December 31,			As of June 30,	As of October 31,
	2010	2011	2012	2013	2013
	RMB'000			RMB'000	RMB'000
Bank loans					
— unsecured	42,500	22,400	38,800	40,590	40,940
— secured	—	—	—	28,000	28,000
Total	<u>42,500</u>	<u>22,400</u>	<u>38,800</u>	<u>68,590</u>	<u>68,940</u>

The above bank loans are all denominated in the RMB. Our bank loans bore effective interest rates ranging from 6.258% to 6.903% per annum for the year ended December 31, 2010, 6.736% per year for the year ended December 31, 2011, 7.325% per year for the year ended December 31, 2012 and 6.865% per annum for the six months ended June 30, 2013. We primarily used our bank loans as general working capital during the Track Record Period.

As of December 31, 2010, 2011, and 2012 our bank loans in the total amount of RMB25.0 million, nil and RMB31.9 million were personal guarantees provided by Mr. Ding. The Directors confirm that the personal guarantees by Mr. Ding will be released upon Listing.

As of October 31, 2013, being the most recent practicable date for the purpose of this indebtedness statement in this prospectus, we had RMB76.0 million of revolving credit facilities made available to us, of which RMB68.9 million were utilized.

CONTINGENT LIABILITIES

As of December 31, 2010, 2011 and 2012 and June 30, 2013, we provided guarantees in respect of bank loans made to related parties and third parties. We provided guarantees to support the business development of related parties that are owned by Mr. Ding Peiyuan and Mr. Ding. We provided a guarantee to support the business development of Fujian Hopeland Import & Export (福建宏潤進出口貿易有限公司), an entity owned by Mr. Ding Peiyuan and Mr. Ding Weizhu, involved in trading of chemical materials. We also secured our buildings and lease prepayments for certain banking facilities of Red Kids (Fujian) Children's Articles Co., Ltd. ("Red Kids Fujian") in 2010 and 2012, which is an entity owned by Mr. Ding. Red Kids Fujian was historically engaged in the OEM production of apparel, shoes and socks but commenced to wind down its operations in late 2009 and had negligible business operation in 2010 and 2011. Red Kids Fujian's banking facilities secured by the Group's assets were used to settle balances resulting from its historical business transactions. We also provided guarantees for third parties, which primarily consisted of (i) cross guarantees with third parties for each other's bank loans to support each other's business development and (ii) guarantees for our suppliers to support their businesses and to develop

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favorable relationships. These third parties primarily engage in the production of clothing and packaging boxes. The provisions of our guarantees are within industry norm. Our maximum liability under these guarantees is as follows:

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	RMB'000			RMB'000
Guarantees for related parties	20,000	45,000	29,000	25,000
Guarantees for third parties	30,000	110,000	106,600	106,600
Total	50,000	155,000	135,600	131,600

Our Directors confirm that all of these guarantees will be released upon the Listing and thus they believe no provision is required for the guarantees.

LISTING EXPENSES

Our estimated total listing expenses amount to approximately RMB35.1 million. In accordance with IAS32, transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would not have been incurred. Listing expenses that are wholly directly attributable to the issue of Shares in the Global Offering, including underwriting commission of approximately RMB7.5 million, would be accounted for as a deduction from equity when the Global Offering is completed. The remaining costs of RMB27.6 million include mainly the fees of Joint Sponsors, legal advisers and reporting accountants and are considered to be related to the listing of Shares in issue as of the Latest Practicable Date and Shares to be issued under the Capitalization Issue and Global Offering. Accordingly, such costs are allocated by reference to the number of Shares to be issued in the Global Offering over the total number of Shares to be listed, and are charged to share premium and profit or loss respectively. Our Directors consider that the above accounting treatment is in line with IAS32. Based on an Offer Price of HK\$1.96 per Offer Share, representing the mid-point of the indicative Offer Price range, the table below sets forth the allocation of listing expenses between the amounts recognized or to be recognized as expenses in the statements of comprehensive income and as prepayment in the statements of financial position:

	During the Track Record Period	For four months ended October 31, 2013	Until the completion of the Global Offering	Total amounts
	RMB in million	RMB in million	RMB in million	RMB in million
Listing expenses recognized or to be recognized as expenses in the statements of comprehensive income	3.4 ⁽¹⁾	3.6	15.1	22.1
Listing expenses recognized or to be recognized as prepayment, which would be offset against share premium upon Listing ...	<u>1.7</u>	<u>0.9</u>	<u>10.4</u>	<u>13.0</u>
Total	<u>5.1</u>	<u>4.5</u>	<u>25.5</u>	<u>35.1</u>

Note:

(1) Listing expenses of RMB3.4 million recognized in the statements of comprehensive income during the Track Record Period were reflected in professional expenses and listing expenses under our administrative and other operating expenses.

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The listing expenses set forth above are current estimates for reference only, and the final amount to be recognized to the consolidated statement of comprehensive income of our Group or to be capitalized is subject to adjustment based on audit and the then changes in variables and assumptions. We do not expect these expenses to have a material impact on our business and results of operations for the year ending December 31, 2013.

DISCLAIMER

Except as disclosed above, as of October 31, 2013, being the latest practicable date for determining our indebtedness, we did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

Our Directors confirm that there has not been any material change in our indebtedness and contingent liabilities since October 31, 2013 up to the date of this prospectus.

FINANCIAL RATIOS

	Year ended/as of December 31,			Six months ended/as of June 30,
	2010	2011	2012	2013
Gross profit margin ⁽¹⁾	40.2%	36.7%	37.7%	37.4%
Net profit margin ⁽²⁾	23.2%	19.7%	22.2%	16.7%
Current ratio ⁽³⁾	0.9	1.4	2.4	1.7
Quick ratio ⁽⁴⁾	0.6	0.9	2.2	1.6
Return on assets ⁽⁵⁾	27.8%	27.5%	31.1%	15.7%
Return on equity ⁽⁶⁾	186.6%	64.0%	48.9%	29.9%
Interest coverage ratio ⁽⁷⁾	47.3	41.3	53.8	37.5
Net debt to equity ⁽⁸⁾	net cash	15.2%	12.7%	net cash
Gearing ratio ⁽⁹⁾	104.4%	18.5%	16.4%	24.3%

Notes:

- (1) Gross profit margin equals our gross profit divided by turnover for the period.
- (2) Net profit margin equals our profit for the year/period divided by turnover for the period.
- (3) Current ratio equals our current assets divided by current liabilities as of the end of the period.
- (4) Quick ratio equals our current assets less inventories divided by current liabilities as of the end of the period.
- (5) Return on assets equals profit for the year/period divided by the total assets as of the end of the period. Return on assets for the six months ended June 30, 2013 is calculated on an annualized basis.
- (6) Return on equity equals profit for the year/period divided by the total equity as of the end of the period. Return on equity for the six months ended June 30, 2013 is calculated on an annualized basis.
- (7) Interest coverage ratio equals profit before finance costs and income tax divided by finance costs of the same period.
- (8) Net debt to equity ratio equals net debt divided by total equity as of the end of the period. Net debt includes all bank loans less cash and cash equivalents.
- (9) Gearing ratio equals total bank loans divided by total equity as of the end of the period.

Current ratio and quick ratio

Our current ratios were 0.9, 1.4, 2.4 and 1.7 as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. Our quick ratios were 0.6, 0.9, 2.2 and 1.6 as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. The improvement in both current ratio and quick ratio during the Track Record Period was mainly due to the increase in trade receivables as result of the growth in our overall sales. The decreases in current ratio and quick ratio as of June 30,

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2013 are due to increases in bank borrowings and trade and other payables and decreases in trade receivables.

Gearing ratio

Gearing ratios were 104.4%, 18.5%, 16.4% and 24.3% as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. Gearing ratio significantly decreased from 104.4% as of December 31, 2010 to 18.5% as of December 31, 2011 primarily due to (i) the decrease in bank loans as a result of repayment of bank loans for the year ended December 31, 2011; and (ii) the increase in total equity as a result of the profit generated from our operations in year 2011. Gearing ratio decreased from 18.5% as of December 31, 2011 to 16.4% as of December 31, 2012 primarily due to the further increase in total equity as a result of profit generated from our operations in year 2012, partially offset by the effect of the increase in bank loans. Gearing ratio further increased to 24.3% as of June 30, 2013 because of our increase in bank loans, which was partially offset by an increase in total equity as a result of profit generated from our operations.

Return on equity

Our return on equity was 186.6%, 64.0%, 48.9% and 29.9% as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. Return on equity continued to decrease throughout the Track Record Period, primarily because our total equity increased at a higher rate than the increase in the net profit.

Return on assets

Our return on assets were 27.8%, 27.5%, 31.1% and 15.7% for the three years ended December 31, 2012 and the six months ended June 30, 2013, respectively. Return on assets remained stable in years 2010 and 2011. It increased from 27.5% for the year ended December 31, 2011 to 31.1% for the year ended December 31, 2012, primarily due to the significant increase in profit for the year ended December 31, 2012. Return on assets as of June 30, 2013 decreased because of increase in cash and cash equivalent balance as a result of cash proceeds received from pre-IPO investment by Chance Talent.

RELATED PARTY TRANSACTIONS

Please see Note 26 to the Accountants' Report in Appendix I of this prospectus for details of the Group's material related party transactions during the Track Record Period.

With respect to the related party transactions set out in the Accountants' Report in Appendix I of this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms and/or terms that are no less favorable than terms available from Independent Third Parties which are considered fair and reasonable and in the interest of our Shareholders as a whole.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

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PROFIT FORECAST

Our unaudited pro forma forecast earnings per Share for the year ending December 31, 2013 have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on January 1, 2013. This unaudited pro forma forecast earnings per Share has been prepared for illustrative purposes only and, because of its nature, may not provide a true picture of our financial results following the Global Offering.

Forecast consolidated profit of the Company for the year ending December 31, 2013 ⁽¹⁾⁽³⁾	not less than RMB124.2 million (approximately HK\$157.4 million)
Unaudited pro forma forecast earnings per Share for the year ending December 31, 2013 ⁽²⁾⁽³⁾	not less than RMB0.16 (approximately HK\$0.2)

Notes:

- (1) The bases and assumptions on which the above profit forecast has been prepared are summarized in Appendix III to this Prospectus. The Directors have prepared the forecast consolidated profit of the Company for the year ending December 31, 2013 based on the audited consolidated results for the six months ended June 30, 2013, the unaudited management accounts of our Group for the four months ended October 31, 2013 and the forecast consolidated results for the remaining two months ending December 31, 2013.
- (2) The calculation of the unaudited pro forma forecast earnings per share is based on the forecast consolidated results for the year ending December 31, 2013 of the Company, assuming that a total of 800,000,000 shares had been in issued during the entire year. The calculation of the forecast earnings per share does not take into account any shares which may be issued upon the exercise of the Over-allotment Option, any options granted under the Pre-IPO Share Option Scheme or options that may be granted under the Share Option Scheme.
- (3) The forecast consolidated profit of the Company and the unaudited pro forma forecast earnings per share for the year ending December 31, 2013 are converted into Hong Kong Dollars at the exchange rate of RMB0.78923 to HK\$1.00, the PBOC rate on December 20, 2013.

DISTRIBUTABLE RESERVES

As of June 30, 2013, we had no distributable reserves available for distribution to our equity holders.

DIVIDEND POLICY

The payment and the amount of any dividends, if paid, will depend on the results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that we may consider relevant. Holders of the Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. The declaration, payment and amount of dividends will be subject to our discretion.

Dividends may be paid only out of our distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

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DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in our financial or trading position since June 30, 2013 and there is no event since June 30, 2013 which would materially affect the information shown in the Accountants' Report in Appendix I of this prospectus.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and pro forma statement of our adjusted net tangible assets, which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on June 30, 2013. This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of our financial position had the Global Offering been completed as of June 30, 2013 or any future dates.

	Consolidated net tangible assets of the Company as at June 30, 2013 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted consolidated net tangible assets of the Company	Unaudited pro forma adjusted consolidated net tangible assets of the Company per Share ⁽³⁾	
	RMB'000	RMB'000	RMB'000	RMB	HK\$ ⁽⁴⁾
Based on the Offer Price of HK\$1.60 for each Offer					
Share	282,117	168,484	450,601	0.56	0.71
Based on the Offer Price of HK\$2.32 for each Offer					
Share	282,117	256,669	538,786	0.67	0.85

Notes:

- (1) The consolidated net tangible assets of the Company as of June 30, 2013 was calculated based on the consolidated net assets of the Company as of June 30, 2013 of approximately RMB282,164,000 as extracted from the Accountants' Report set out in Appendix I to this Prospectus, with adjustments for the intangible assets of approximately RMB47,000.
- (2) The estimated net proceeds from the Global Offering are based on 160,000,000 Shares at the Offer Price of HK\$1.60 and of HK\$2.32 per Share, after deduction of the underwriting fees and other related expenses payable by the Company. No account has been taken of the Shares which may be allotted and issued upon the exercise of the Over-allotment Option or the options granted under the Pre-IPO Share Option Scheme or any options that may be granted under the Share Option Scheme, or any Shares which may be repurchased by the Company pursuant to the Repurchase Mandate. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into Renminbi at an exchange rate of RMB0.78923 to HK\$1.00, which was the rate prevailing on December 20, 2013 as set by PBOC. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at all.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after making the adjustments referred to in the preceding paragraph and on the basis that a total of 800,000,000 Shares were in issue assuming that the Global Offering had been completed on June 30, 2013. It does not take into account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or the options granted under the Pre-IPO Share Option Scheme or any options that may be granted under the Share Option Scheme, or any Shares which may be repurchased by the Company pursuant to the Repurchase Mandate.
- (4) The unaudited pro forma adjusted consolidated net tangible assets of the Company per Share is converted from Renminbi into Hong Kong dollars at the rate of RMB0.78923 to HK\$1.00, which was the rate prevailing on December 20, 2013 as set by PBOC. No representation is made that the Renminbi amounts have been, could have been or could be converted to Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.
- (5) No adjustment has been made to the consolidated net tangible assets of the Company as at June 30, 2013 to reflect any trading result or other transaction of the Group entered into subsequent to June 30, 2013.

FINANCIAL INFORMATION

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various types of market risks in the ordinary course of our business, including credit risks, liquidity risks, fluctuations in interest rates and foreign currency risks. We manage our exposure to these and other market risks through regular operating and financial activities.

Credit Risk

Our credit risk is primarily attributable to trade and other receivables and deposits with bank. All of our customers who wish to trade on credit terms are subject to credit evaluation procedures. In addition, receivable balances are monitored on an ongoing basis. For the years ended December 31, 2010, 2011 and 2012, certain amounts of turnover and trade receivables are related to sales to related parties. Our management considers that related parties are under the control of the members of the Controlling Shareholder's family, thus no material credit risk exists on sales to related companies. In respect of sales to third party customers, credit evaluations are performed on customers requiring credit terms. These evaluations focus on the customer's payment history, current payment capabilities and we take into account information specific to the customer as well as to the economic environment.

Our exposure to credit risk is influenced mainly by the individual characteristics of each customer and therefore significant concentrations of credit risk arise when we have significant exposure to individual customers. As of December 31, 2010, 2011 and 2012 and June 30, 2013, 1%, 6%, 21% and 18% of the total trade and bills receivables were due from our largest customer, and 11%, 23%, 52% and 48% of the total trade and bills receivables were due from our five largest customers, respectively.

We mitigate our exposure to credit risk by placing deposits with financial institutions with established credit rating. Given the high credit ratings of the banks, management does not expect any counter party to fail to meet its obligations.

The maximum exposure to credit risk of the Group's financial assets is represented by the carrying amount of each financial asset in the consolidated statements of financial position as set out in the Accountants' Report in Appendix I. Except for the financial guarantees given by us as set forth in "Contingent Liabilities" of this section, we have not provided any other guarantees that would expose us to credit risk.

Liquidity Risk

The board of directors of the Company is responsible for cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands.

Our policy is to regularly monitor liquidity requirements and our compliance with lending covenants, to ensure that we maintain sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet our liquidity requirements in the short and longer terms.

All of our non-interest bearing financial liabilities are carried at amount not materially different from our contractual undiscounted cash flow as all the financial liabilities are with maturities within one year or repayable on demand at the end of respective reporting period.

FINANCIAL INFORMATION

Interest Rate Risk

Our interest rate risk arises primarily from bank loans. Borrowings issued at variable rates and at fixed rates expose us to cashflow interest rate risk and fair value interest rate risk, respectively. Our Directors will continue to closely monitor our loan portfolio and compare the loan margin spread under existing agreements against the current borrowing interest rates under different currencies and new offers from banks.

Foreign Currency Risk

Our businesses are principally conducted in RMB and most of our monetary assets and liabilities are denominated in RMB. We receive foreign currency through export business, but the amount is insignificant. Accordingly, the management considers our exposure to currency risk is insignificant.

Treasury policy

We have established a treasury policy that aims to better control our treasury operations and lower our cost of borrowing. Our Directors review and monitor all funds for our operations. We maintain an adequate level of cash and cash equivalents to finance our daily operations. We also ensure the availability of bank facilities to address any short term funding needs. We may enter into futures contracts to hedge our exposure to fluctuations in foreign currency exchange rates and interest rates. We do not enter into any derivative products for speculative purposes.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please refer to the section headed “Business — Our business strategies” in this prospectus for a detailed discussion of our future plans.

USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK\$269.3 million (equivalent to RMB212.5 million) from the Global Offering, assuming that the Over-allotment Option is not exercised, after deducting the underwriting commissions and other estimated offering expenses payable by us and assuming the Offer Price of HK\$1.96 per Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this prospectus. If the Over-allotment Option is exercised in full, we estimate that our additional net proceeds from the offering of these additional Shares will be approximately HK\$45.6 million, after deducting the underwriting commissions and our estimated expenses, assuming an Offer Price of HK\$1.96 per Share.

We intend to use the proceeds from the Global Offering for the purposes and in the amounts set out below:

- approximately 32.1%, or HK\$86.4 million (equivalent to RMB68.1 million), is expected to be used primarily for establishing self-operated retail outlets. Currently, we expect to establish not more than 50 self-operated retail outlets in total by the end of 2014. Our budgeted initial costs and working capital requirements for each of our self-operated retail outlets, including deposits, setup costs and inventory, are expected to be approximately RMB0.6 million to RMB1.0 million. Our budgeted total expenditure for establishing self-operated retail outlets will be not more than RMB3.0 million and RMB40.0 million for 2013 and 2014, respectively. We expect to fund the establishment of our self-operated retail outlets through internal funds and proceeds from the Global Offering.
- approximately 37.6%, or HK\$101.2 million (equivalent to RMB80.0 million), is expected to be used to enhance our design and research and development capabilities in our new design center in Shanghai. Our budgeted capital expenditures are estimated to be approximately RMB57.1 million for setting up our design center, which includes approximately RMB3.0 million for fees relating to interior design, RMB24.6 million for decorations and leasehold improvements (which amounts to approximately RMB2,300 per sq.m. based on quotes we had received from an Independent Third Party), RMB16.1 million for air-conditioning and heating system (which amounts to approximately RMB1,500 per sq.m.) and RMB13.4 million for purchasing advanced 3-dimensional scanning and printing systems, 3-dimensional computer-aided design systems, fabric cutting machines and large-scale ironing equipments. Our budgeted capital expenditures also include RMB8.9 million for recruiting at least 30 additional design and research and development staff. The remaining RMB14.0 million is expected to be used for expenses related to joint programs with established universities in the PRC and international corporations. Under our joint development programs with established universities in the PRC, we plan to provide 30 paid positions to students from the partner institutions and we plan to sponsor events held at such institutions. We expect to incur a total of RMB1.8 million per year for the paid positions and approximately RMB300,000 per year in expenses relating to

FUTURE PLANS AND USE OF PROCEEDS

sponsorship of events. We currently expect to hold the joint development programs for four years, and our total expenses relating to our joint development programs is expected to be approximately RMB8.4 million. In addition to our joint development programs, we expect to incur RMB1.2 million per year for three years on a cooperation program with an international fashion company, on the establishment of a platform that collects and analyzes latest fashion trends and design concepts. We expect to incur a total of RMB3.6 million for the cooperation program. As of the Latest Practicable Date, we have not entered into definite agreements with the PRC universities for the joint development program or with the international fashion company for the cooperation program. We expect to incur RMB2.0 million in relation to establishing a statistics and demographic database on children in the PRC and for the training and continuing education of our design and research and development staff, which is intended to provide information regarding our brand history, operation, design concepts, product knowledge and latest market trends;

- approximately 20.3%, or HK\$54.7 million (equivalent to RMB43.2 million), is expected to be used for the establishment of an ERP system;
- approximately 5.0%, or HK\$13.5 million (equivalent to RMB10.6 million), is expected to be used for marketing and promotional activities; and
- the remaining approximately 5.0%, of HK\$13.5 million (equivalent to RMB10.6 million), is expected to be used to fund our working capital and general corporate purposes.

In the event that the Offer Price is fixed at the highest end of the proposed Offer Price range, the net proceeds from the Global Offering (excluding net proceeds from the sale of the Sale Shares and assuming that the Over-allotment Option is not exercised) to us will be approximately HK\$325.2 million (assuming an Offer Price of HK\$2.32 per Share). In the event that the Offer Price is fixed at the lowest end of the proposed Offer Price range, the net proceeds of the Global Offering (excluding net proceeds from the sale of the Sale Shares and assuming that the Over-allotment Option is not exercised) to us will be approximately HK\$213.5 million (assuming an offer price of HK\$1.60 per Share). We will adjust the allocation of the net proceeds for the aforementioned purposes on a pro-rata basis.

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HONG KONG UNDERWRITERS

CCB International Capital Limited
China Galaxy International Securities (Hong Kong) Co., Limited
Guotai Junan Securities (Hong Kong) Limited
Convoy Investment Services Limited
First Shanghai Securities Limited

Underwriting Arrangements and Expenses

Hong Kong Underwriting Agreement

We are offering the Hong Kong Public Offer Shares for subscription on the terms and subject to the conditions of this prospectus and the Application Forms at the Offer Price. Subject to the Listing Committee granting the listing of, and permission to deal in, our Shares in issue and to be issued, and to certain other conditions described in the Hong Kong Underwriting Agreement (including the Joint Bookrunners, on behalf of the Underwriters, and us agreeing to the Offer Price), the Hong Kong Underwriters have severally agreed to subscribe or procure subscribers for the Hong Kong Public Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional in accordance with its terms and not having been terminated in accordance with its terms or otherwise.

Grounds for termination

The Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) may in their sole and absolute discretion terminate the Hong Kong Underwriting Agreement with immediate effect by notice in writing to us at any time at or prior to 8:00 a.m. on the Listing Date if:

- (a) there develops, occurs, exists or comes into force:
 - (i) any change or development involving a prospective change, or any event or series of events resulting in or representing any change or development, in local, national, regional or international financial, political, military, industrial, economic, fiscal or market conditions (including, without limitation, conditions and sentiments in stock and bond markets, money and foreign exchange markets, investment and credit markets and inter-bank markets) in or affecting Hong Kong, the PRC, the United States, Japan, Singapore, the European Union (or any member thereof), the BVI, the United Kingdom, the Cayman Islands, or any other jurisdiction in which any member of our Group is incorporated, operates or conducts business (collectively the “Relevant Jurisdictions”);
or
 - (ii) any new law or regulation or any change or development involving a prospective change in any existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court, governmental or regulatory authority in or affecting any of the Relevant Jurisdictions;
or

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- (iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, riots, public disorder, acts of God, acts of terrorism (whether or not responsibility has been claimed), epidemic, pandemic, outbreak of infectious disease (including without limitation SARS, H5N1, H7N9 or H1N1 or swine or avian influenza or such related/mutated forms)) in or affecting any of the Relevant Jurisdictions; or
- (iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared), acts of war or other state of emergency or calamity or crisis in or affecting any of the Relevant Jurisdictions; or
- (v) the imposition or declaration of (A) any moratorium, suspension, restriction or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the Tokyo Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or the London Stock Exchange or (B) any moratorium on, or disruption in, commercial banking activities or foreign exchange trading or securities settlement or clearing services in or affecting any of the Relevant Jurisdictions; or
- (vi) any change or development involving a change or prospective change in taxation or exchange controls (or the implementation of any exchange control) or currency exchange rates or control or foreign investment regulations in or affecting any of the Relevant Jurisdictions; or
- (vii) any imposition of economic sanction, in whatever form, directly or indirectly, in or affecting any of the Relevant Jurisdictions; or
- (viii) any change in the system under which the value of the Hong Kong dollar is linked to that of the United States dollar or the value of the Renminbi is determined by reference to a basket of world currencies or a material devaluation of Hong Kong dollars or the Renminbi against any foreign currency; or
- (ix) any change or development or interference or event involving a prospective change in our Group's assets, liabilities, profit, losses, business performance, financial condition, earnings, trading position or prospects, or any change in capital stock or long-term debt of our Company or any other member of our Group, which (in any such case) is not set forth in this prospectus; or
- (x) a demand by any creditor for repayment or payment of any indebtednesses of our Group or in respect of which any member of our Group is liable prior to its stated maturity; or
- (xi) non-compliance of this prospectus and the Application Forms or any aspect of the Global Offering with the Listing Rules or any other applicable Law; or
- (xii) any adverse change in or any development involving a prospective adverse change in, or a materialization of, any of the risks set out in the section headed "Risk Factors" in this prospectus; or
- (xiii) any Director, the chairman, chief executive officer or chief financial officer of our Company named in this prospectus gives notice to resign or retire, or is removed from office,

UNDERWRITING

and which, in any such case (whether individually or in the aggregate) and in the sole and absolute opinion of the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters):

- (A) is or will or may be materially adverse to, or materially and prejudicially affect, the business or financial or trading position or prospects of our Group taken as a whole; or
 - (B) has or will or may have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or accepted or the distribution of the Offer Shares; or
 - (C) makes or will or may make it impracticable, inadvisable, inexpedient or not commercially viable to proceed with or for any material part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering and/or the Global Offering or the delivery of Shares on the terms and in the manner contemplated by this prospectus or for any of the above to be performed or implemented as envisaged; or
- (b) any of the following shall have come to the notice of the Joint Bookrunners after the date of the Hong Kong Underwriting Agreement or they have reasonable cause to believe:
- (i) that any statement contained in any of the formal notice in connection with the Hong Kong Public Offering, the Hong Kong Public Offering Documents (as defined in the Hong Kong Underwriting Agreement) or the International Offer Documents (as defined in the Hong Kong Underwriting Agreement) was or has become untrue or incorrect or misleading in any material respect, or that any forecast, expression of opinion, intention or expectation contained in this prospectus or any announcement issued by our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions with reference to the facts and circumstances then subsisting; or
 - (ii) any matter which would, if the formal notice in connection with the Hong Kong Public Offering, the Hong Kong Public Offer Documents or the International Offer Documents and/or any announcement issued or authorized by our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) were issued at that time, constitute a material omission therefrom; or
 - (iii) other than with the prior approval of the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters), the issue or requirement to issue by our Company of a supplemental prospectus or amendment to this prospectus; or
 - (iv) any matter, event, act or omission which gives or is likely to give rise to any liability on the part of our Company or the Warrantors (as defined in the Hong Kong Underwriting Agreement) out of or in connection with any breach, inaccuracy and/or incorrectness of the Warranties (as defined in the Hong Kong Underwriting Agreement) and/or the indemnities given by our Company, the Warrantors or any of them under the Hong Kong Underwriting Agreement; or
 - (v) any event, act or omission which gives rise or is likely to give rise to any liability of the Company or any of the other Warrantors pursuant to the indemnities in the Hong Kong Underwriting Agreement; or

UNDERWRITING

- (vi) any material breach of any of the obligations or undertakings of our Company or the Warrantors under the Hong Kong Underwriting Agreement as determined by the Joint Bookrunners in their sole and absolute opinion; or
- (vii) that any profit forecast or estimate which appears in any of the Offer Documents (as defined in the Hong Kong Underwriting Agreement) is or becomes incapable of being met or, in the opinion of the Joint Bookrunners, unlikely to be met; or
- (viii) that any certificate given by our Company or any of its officers to the Joint Bookrunners under or in connection with the Hong Kong Underwriting Agreement is false or misleading in any material respect; or
- (ix) any Director or any member of senior management named in this prospectus is being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (x) the commencement by any judicial, regulatory, governmental or political body or law enforcement agency or organization of any investigation, public action or other material action, claim or proceeding against any Director of our Company or an announcement by any judicial, regulatory, governmental or political body or law enforcement agency or organization that it intends to take any such action; or
- (xi) save as disclosed in this prospectus, a material contravention by any member of our Group of the Listing Rules or any applicable laws or regulations; or
- (xii) any material litigation, legal action or claim being threatened or instigated against any member of our Group; or
- (xiii) a petition is presented for the winding-up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed over all or any material part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or
- (xiv) a prohibition on our Company for whatever reason from allotting, issuing or selling the Offer Shares (including the Shares to be sold pursuant to the exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (xv) our Company withdraws this prospectus and/or the Application Forms; or
- (xvi) approval by the Listing Committee for the listing of, and permission to deal in, the Shares to be issued or sold (including any Shares that may be sold pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the date of approval of the listing, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (xvii) any of the experts named in Appendix V of this prospectus has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears.

UNDERWRITING

Undertakings

Undertakings by our Company

Pursuant to the Hong Kong Underwriting Agreement, our Company has undertaken to each of the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) that, and each of the other Warrantors (as defined in the Hong Kong Underwriting Agreement) has undertaken to procure that except pursuant to the Global Offering, the Over-allotment Option, options granted under the Pre-IPO Share Option Scheme and options which may be granted under the Share Option Scheme or with the prior written consent of the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) our Company will not, and will procure that our subsidiaries will not, offer, accept subscription for, pledge, issue, sell, lend, mortgage, assign, charge, contract to issue or sell, sell any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, Shares or other securities of our Company or our subsidiaries or any interest therein (including but not limited to, warrants or other convertible or exchangeable securities) or repurchase Shares or other securities of our Company or our subsidiaries or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or our subsidiaries or any interest thereon or offer to or agree to do any of the foregoing or announce any intention to do so during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date which is six months from the Listing Date (the “First Six Months Period”);
- (b) our Company will not enter into any of the transactions described in paragraph (a) above or agree or contract to or publicly announce any intention to enter into any such transactions such that any of the Controlling Shareholders would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company during the period of six months immediately following the expiry of the First Six Months Period (the “Second Six Months Period”); and
- (c) our Company will ensure that if any of the transactions described in paragraph (a) above are carried out during the Second Six Months Period, we will take all reasonable steps to ensure that any such act will not create a disorderly or false market for any Shares or other securities of our Company.

Undertakings by the Controlling Shareholders

Pursuant to the Hong Kong Underwriting Agreement, each of the Controlling Shareholders has jointly and severally undertaken to each of the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) that:

- (a) during the period commencing on the date of this prospectus and ending on the expiry date of the First Six Months Period, each of the Controlling Shareholders will not, and will procure that the relevant registered holder(s) and his/her/its associates (as defined in the Listing Rules) and companies controlled by him/her/it and any nominee or trustee holding in trust for

UNDERWRITING

him/her/it shall not, without the prior written consent of the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) and unless pursuant to the Stock Borrowing Agreement or otherwise in compliance with the requirements of the Listing Rules, (a) offer, pledge, charge (other than any pledge or charge of our Company's issued share capital after the Global Offering (assuming the Over-allotment Option is not exercised) in favor of an authorized institution as defined in the Banking Ordinance (Cap. 155 of the Laws of Hong Kong) for a bona fide commercial loan), sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the Shares or any securities convertible into or exercisable or exchangeable for, or that represent the right to receive, any of the Shares or securities of our Company beneficially owned by him/her/it or the relevant company, nominee or trustee (including any interest in any shares in any company controlled by him/her/it) which is directly or indirectly a beneficial owner of any of the Shares or securities of our Company or any interest thereon (the "Relevant Securities"); or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Relevant Securities; (c) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (a) or (b) above; or (d) announce any intention to enter into or effect any of the transactions referred to in paragraphs (a), (b) or (c) above, which any of the foregoing transactions referred to in paragraphs (a), (b) or (c) is to be settled by delivery of Shares or such other securities, in cash or otherwise;

- (b) each of the Controlling Shareholders will, and will procure that his/her/its respective associates and companies controlled by him/her/it and any nominee or trustees holding in trust for him/her/it shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by it or by the registered holder controlled by him/her/it of any Shares; and
- (c) each of the Controlling Shareholders will not, during the Second Six-Month Period, enter into any of the transactions specified in paragraph (a) above or (ii) offer to or agree to or publicly announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, he/she/it will cease to be a "controlling shareholder" (as the term is defined in the Listing Rules) of our Company. In the event that he/she/it enters into any of such transactions or offers to or agrees to or contracts to or announces any intention to effect any such transactions in compliance with this paragraph (c), he/she/it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

Undertakings by existing Shareholders of our Company

Each of Opulent Ample, Snowy Wise, Rightful Style, Splendid First, Wind Dove, SHKSF, Vantage Assets and Benhui has agreed, and Chance Talent will agree, that all Shares held by each of them will be locked up for six months from the Listing Date. For further details of such undertakings, please refer to the section headed "History and Corporate Structure" in this prospectus.

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Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange that no further Shares or securities convertible into our Company's equity securities (whether or not of a class already issued) may be issued by our Company or form the subject of any agreement to such an issue by our Company within six months from the Listing Date (whether or not such issue of Shares or our Company's securities will be completed within six months from the Listing Date), except in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

Undertakings by the Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, the Controlling Shareholders have undertaken to the Stock Exchange and to our Company that, they will not and will procure that the relevant registered holder(s) will not:

- (a) in the period commencing on the date by reference to which disclosure of their shareholding is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which they are shown by this prospectus to be the beneficial owner; and
- (b) in the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interest or encumbrances, they would cease to be our Controlling Shareholder.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, the Controlling Shareholders have undertaken to the Stock Exchange and to our Company that within the period commencing on the date by reference to which disclosure of their Shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, they will:

- (a) when they pledge or charge any Shares beneficially owned by them in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the laws of Hong Kong)) pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company of such pledge or charge together with the number of Shares so pledged or charged; and
- (b) when they receive indications, either verbal or written, from the pledgee or chargee of any Shares that any of the pledged or charged Shares will be disposed of, immediately inform our Company of such indications.

Our Company will inform the Stock Exchange as soon as we have been informed of matters referred in above by any of the Controlling Shareholders and disclose such matters by way of announcement pursuant to the requirements under the Listing Rules as soon as possible.

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International Placing

In connection with the International Placing, it is expected that our Company will enter into the International Underwriting Agreement with, among others, our Controlling Shareholders and the International Underwriters, on terms and conditions that are substantially similar to the Hong Kong Underwriting Agreement as described above and on the additional terms described below. Under the International Underwriting Agreement, the International Underwriters will severally agree to subscribe or purchase or procure subscribers for the International Placing Shares being offered pursuant to the International Placing.

Over-allotment Option

Our Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by Guotai Junan Securities (Hong Kong) Limited on behalf of the International Underwriters at any time from the Listing Date until 30 days after the last date for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 24,000,000 Shares, representing 15% of the Offer Shares initially offered under Global Offering, at the same price per Share under the International Placing to cover, among other things, over-allocations in the International Placing, if any.

Commissions and Expenses

The Underwriters will receive an underwriting commission at the rate of 3% of the aggregate Offer Price payable for the Offer Shares (including the Shares to be issued pursuant to the Over-allotment Option). Furthermore, our Company agrees, at its sole and absolute discretion, to pay to the Joint Bookrunners a discretionary incentive fee per Offer Share of up to 1%. The underwriting commissions, documentation fee, listing fees, Stock Exchange trading fee and transaction levy, legal and other professional fees, and printing and other expenses in relation to the Global Offering are estimated to amount approximately HK\$44.3 million in total (based on the Offer Price HK\$1.96 per Share, being the mid-point of the indicative Offer Price range of HK\$1.60 to HK\$2.32 per share and assuming the Over-allotment Option is not exercised), and are payable by our Company.

UNDERWRITERS' INTERESTS IN OUR COMPANY

The Sole Global Coordinator, the Joint Bookrunners and other Underwriters will receive an underwriting commission. Particulars of these under underwriting commission and expenses are set out in the paragraph headed “— Underwriting Arrangements and Expenses” in this section for further information.

Save for their obligations under the Underwriting Agreements, none of the Underwriters is interested legally or beneficially in any shares of any member of our Group nor has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any member of our Group nor any interest in the Global Offering.

MINIMUM PUBLIC FLOAT

Our Directors and the Joint Bookrunners will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Global Offering.

UNDERWRITING

INDEPENDENCE OF THE JOINT SPONSORS

On April 17, 2013, Mr. Ding, Think Wise and our Company, entered into an investment agreement with Chance Talent, which is a wholly-owned subsidiary of CCBI Investments, pursuant to which Chance Talent agreed to subscribe for the Exchangeable Notes issued by Think Wise. CCBI Investments is an indirect wholly-owned subsidiary of China Construction Bank Corporation, the ultimate parent company of CCBI. Chance Talent is therefore a member of the sponsor group in relation to CCBI pursuant to Rule 3A.01(9) of the Listing Rules. Given that under the terms of the Exchangeable Notes, Chance Talent may hold Shares representing more than 5% of our Company's issued share capital upon completion of the Global Offering, CCBI does not satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

China Galaxy satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering.

The Global Offering consists of (subject to adjustment as mentioned below):

- the Hong Kong Public Offering of 16,000,000 Shares (subject to adjustment as mentioned below) in Hong Kong as described under the paragraph headed “— The Hong Kong Public Offering” in this section below; and
- the International Placing of 144,000,000 Shares (subject to adjustment as mentioned below) outside the United States in reliance on Regulation S as described under the paragraph headed “— The International Placing” in this section below.

Investors may apply for the Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the Offer Shares under the International Placing, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Placing will involve selective marketing of the Offer Shares to institutional and professional investors and other investors outside the United States in reliance on Regulation S. The International Underwriters are soliciting from prospective investors indications of interest in acquiring the Offer Shares in the International Placing. Prospective investors will be required to specify the number of Offer Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Placing respectively may be subject to adjustment as described in the paragraph headed “— Pricing and Allocation” in this section, and in the case of the International Placing only, the Over-allotment Option.

PRICING AND ALLOCATION

Offer Price

The Offer Price will be not more than HK\$2.32 per Offer Share and is expected to be not less than HK\$1.60 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

Price payable on application

Applicants under the Hong Kong Public Offering must pay, on application, the maximum indicative Offer Price of HK\$2.32 per Hong Kong Public Offer Share plus 1% brokerage, a 0.003% SFC transaction levy and a 0.005% Stock Exchange trading fee, amounting to a total of HK\$4,686.77 for one board lot of 2,000 Shares. Each Application Form includes a table showing the exact amount payable on certain numbers of Shares. If the Offer Price as finally determined in the manner described below, is less than HK\$2.32, appropriate refund payments (including the

STRUCTURE OF THE GLOBAL OFFERING

brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants without interest. See the section headed “How to Apply for Hong Kong Public Offer Shares — Refund of application monies” in this prospectus for further details.

Determining the Offer Price

The International Underwriters are soliciting from prospective investors indications of interest in acquiring the Shares in the International Placing. Prospective investors will be required to specify the number of Offer Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around the Price Determination Date.

The Offer Price is expected to be fixed by agreement between the Joint Bookrunners (on behalf of the Underwriters) and our Company on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Tuesday, January 7, 2014 and in any event, no later than 12:00 noon on Monday, January 13, 2014.

If, for any reason, our Company and the Joint Bookrunners (on behalf of the Underwriters) are unable to reach agreement on the Offer Price at or before 12:00 noon on Monday, January 13, 2014, the Global Offering will not proceed and will lapse.

Reduction in Offer Price range and/or number of Offer Shares

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Joint Bookrunners (on behalf of the Underwriters) consider it appropriate and together with the consent of our Company, the indicative Offer Price range and/or the number of Hong Kong Public Offer Shares may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering.

In such a case, our Company will, as soon as practicable following the decision to make any such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on our Company’s website at www.redkids.com and the website of the Stock Exchange at www.hkexnews.hk notice of the reduction in the indicative Offer Price range and/or number of Shares. Such notice will also include confirmation or revision, as appropriate, of the offering statistics as currently set out in the section headed “Summary” in this prospectus and any other financial information which may change as a result of such reduction. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range. In the absence of the publication of any such notice, the Offer Price shall under no circumstances be set outside the Offer Price range indicated in this prospectus.

Before submitting applications for Hong Kong Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range and/or number of Offer Shares may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

Allocation

The Shares to be offered in the Hong Kong Public Offering and the International Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Bookrunners (on behalf of the Underwriters).

Allocation of the Shares pursuant to the International Placing will be determined by the Joint Bookrunners (on behalf of the Underwriters) and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares after Listing. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of the International Placing Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and the Shareholders as a whole.

Allocation of the Shares pursuant to the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Public Offer Shares validly applied for by applicants. The allocation of Hong Kong Public Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offer Shares.

Announcement of Offer Price and basis of allocations

The Offer Price, the level of indications of interest in the International Placing, level of applications in the Hong Kong Public Offering and the basis of allocations of the Hong Kong Public Offer Shares are expected to be announced on Tuesday, January 14, 2014 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the Company's website at www.redkids.com and the website of the Stock Exchange at www.hkexnews.hk.

Results of allocations in the Hong Kong Public Offering, including the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants (where applicable) and the number of Hong Kong Public Offer Shares successfully applied for under **WHITE** and **YELLOW** Application Forms, or by giving **electronic application instructions** to HKSCC or by applying online through the **White Form eIPO** Service Provider under the **White Form eIPO** Service, will be made available through a variety of channels as described in the section headed "How to Apply for Hong Kong Public Offer Shares — Publication of results" in this prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares pursuant to the Hong Kong Public Offering will be conditional upon, among other things:

- the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the Shares which may be made available or issued pursuant to the Capitalization Issue, the exercise of the Over-allotment Option and any additional Shares up to 10% of the issued share capital

STRUCTURE OF THE GLOBAL OFFERING

of our Company as of the Listing Date, which may fall to be issued upon the exercise of the options which may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme);

- the Offer Price having been duly agreed by no later than the Price Determination Date;
- the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- the obligations of the Underwriters under each of the International Underwriting Agreement and the Hong Kong Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with their respective terms,

in each case on or before the dates and times specified in such Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 30 days after the date of this prospectus.

The consummation of each of the Hong Kong Public Offering and the International Placing is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with their respective terms.

If any of the above conditions is not fulfilled or waived, prior to the dates and times specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will cause to be published by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the Company's website at www.redkids.com and the website of the Stock Exchange at www.hkexnews.hk on the next day following such lapse. In such event, all application monies will be returned, without interest, on the terms set out in the section headed "How to Apply for Hong Kong Public Offer Shares — Refund of Application Monies" in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares are expected to be issued on Tuesday, January 14, 2014 but will only become valid certificates of title at 8:00 a.m. on Wednesday, January 15, 2014, provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed "Underwriting — Underwriting Arrangements and Expenses — Grounds for termination" in this prospectus has not been exercised.

THE HONG KONG PUBLIC OFFERING

Number of Shares initially offered

Pursuant to the Hong Kong Public Offering, our Company is initially offering 16,000,000 Shares at the Offer Price, representing 10% of the total number of Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of Shares offered under the Hong Kong Public Offering will represent 2% of the total issued share capital of our Company immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies

STRUCTURE OF THE GLOBAL OFFERING

(including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Completion of the Hong Kong Public Offering is subject to the conditions as set out in the paragraph headed “— Conditions of the Global Offering” in this section.

Allocation

For allocation purposes only, the Hong Kong Public Offer Shares (after taking into account any adjustment in the number of Offer Shares allocated between the Hong Kong Public Offering and the International Placing) will be divided equally into two pools (subject to adjustment of odd lot size). Pool A will comprise 8,000,000 Hong Kong Public Offer Shares and pool B will comprise 8,000,000 Hong Kong Public Offer Shares, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for Hong Kong Public Offer Shares with a total amount (excluding brokerage fee, the SFC transaction levy and the Stock Exchange trading fee) of HK\$5 million or below will fall into pool A and all valid applications that have been received for Hong Kong Public Offer Shares with a total amount (excluding brokerage fee, the SFC transaction levy and the Stock Exchange trading fee) of over HK\$5 million and up to the total value of Pool B, will fall into pool B.

Applicants should be aware that applications in pool A and pool B are likely to receive different allocation ratios. If Hong Kong Public Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Hong Kong Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Public Offer Shares from either pool A or pool B but not from both pools and may only apply for Hong Kong Public Offer Shares in either pool A or pool B. In addition, multiple or suspected multiple applications within either pool or between pools will be rejected. Any application for more than 100% of the Hong Kong Public Offer Shares in either pool A or pool B initially being offered will be rejected at the discretion of the Joint Bookrunners on our behalf.

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Placing is subject to adjustment. If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Offer Shares initially available under the Hong Kong Public Offering, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 48,000,000, 64,000,000 and 80,000,000 Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Shares initially available under the Global Offering (before any exercise of the Over-allotment Option). In such cases, the number of Offer Shares allocated in the International Placing will be correspondingly reduced, in such manner as the Joint Bookrunners (on behalf the Underwriters) deems appropriate, and such additional Offer Shares will be allocated to pool A and pool B equally.

If the Hong Kong Public Offer Shares are not fully subscribed, the Joint Bookrunners (on behalf the Underwriters) have the authority (but not an obligation) to reallocate all or any unsubscribed Hong Kong Public Offer Shares to the International Placing, in such proportions as it deems appropriate. In addition, the Joint Bookrunners (on behalf the Underwriters) may reallocate Offer Shares from the International Placing to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

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Applications

The Joint Bookrunners (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Placing, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Bookrunners so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Offer Shares under the Hong Kong Public Offering.

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing, and such applicant's application is liable to be rejected if the said undertaking or confirmation is breached or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Placing.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL PLACING

Number of Offer Shares offered

The number of the Offer Shares to be initially offered for subscription under the International Placing will be 144,000,000 Shares, representing 90% of the Offer Shares under the Global Offering (assuming the Over-allotment Option is not exercised). The International Placing is subject to the Hong Kong Public Offering becoming unconditional.

Allocation

Pursuant to the International Placing, the International Underwriters will conditionally place the International Placing Shares at the Offer Price with institutional, professional and/or other investors expected to have a sizeable demand for the International Placing Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Allocation of the International Placing Shares will be effected in accordance with the "book-building" process described in paragraph headed "— Pricing and Allocation" in this section and based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its Offer Shares after Listing. Such allocation is intended to result in a distribution of the International Placing Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and the Shareholders as a whole.

OVER-ALLOTMENT OPTION

Our Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by Guotai Junan Securities (Hong Kong) Limited on behalf of the International Underwriters at any time and from time to time from the Listing Date, up to (and including) the date which is the 30th day after the last day for lodging applications under the Hong Kong Public

STRUCTURE OF THE GLOBAL OFFERING

Offering. An announcement will be made in the event that the Over-allotment Option is exercised. Pursuant to the Over-allotment Option, our Company may be required to issue up to 24,000,000 Shares, representing 15% of the maximum number of Offer Shares initially available under the Global Offering, at the Offer Price. These Shares will be issued or sold (as the case may be) at the Offer Price for the purpose of covering over-allocations in the International Placing, if any.

STOCK BORROWING AGREEMENT

In connection with the Global Offering, Guotai Junan Securities (Hong Kong) Limited as the stabilizing manager, or any person acting for it may choose to borrow Shares from Think Wise pursuant to the Stock Borrowing Agreement, or acquire Shares from other sources, including the exercise of the Over-allotment Option, or by making purchases in the secondary market at prices that do not exceed at Offer Price. The Stock Borrowing Agreement will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are to be complied with as follows:

- such stock borrowing arrangement with Think Wise will only be effected by the stabilizing manager or any person acting for it for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option;
- the maximum number of Shares to be borrowed from Think Wise under the Stock Borrowing Agreement will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;
- the same number of Shares so borrowed must be returned to Think Wise or its nominees on or before the third business day following the earlier of (i) the last day on which the Over-allotment Option may be exercised or (ii) the day on which the Over-allotment Option is exercised in full;
- the stock borrowing arrangement under the Stock Borrowing Agreement will be effected in compliance with all applicable laws, Listing Rules and other regulatory requirements; and
- no payment will be made to Think Wise by the stabilizing manager or any person acting for it in relation to such stock borrowing arrangement.

STABILIZATION AND OVER-ALLOTMENT

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, Guotai Junan Securities (Hong Kong) Limited, as stabilizing manager, or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilizing or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the Listing Date. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements including those of Hong Kong. However, there is no obligation

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on the stabilizing manager or any person acting for it to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the stabilizing manager or any person acting for it and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end on the 30th day after the day on which the application lists close under the Hong Kong Public Offering. The number of Offer Shares that may be over-allocated will not exceed the number of Offer Shares that may be sold under the Over-allotment Option, namely, 24,000,000 Shares, which is approximately 15% of the Offer Shares initially available under the Global Offering.

Stabilizing action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong) includes: (i) over-allocation for the purpose of preventing or minimizing any reduction in the market price of the Shares; (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares; (v) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the Shares should note that:

- the stabilizing manager, or any person acting for it, may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which the stabilizing manager, or any person acting for it, will maintain such a position;
- liquidation of any such long position by the stabilizing manager or any person acting for it may have an adverse impact on the market price of the Shares;
- no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period which will begin on the Listing Date, and is expected to expire on February 6, 2014, being the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilizing period by the taking of any stabilizing action; and
- stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Offer Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong) will be made within seven days of the expiration of the stabilizing period.

In connection with the Global Offering, the stabilizing manager or any person acting for it may over-allocate up to and not more than an aggregate of 24,000,000 Shares and cover such

STRUCTURE OF THE GLOBAL OFFERING

over-allocations by exercising the Over-allotment Option, or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements as detailed above or a combination of these means.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, January 15, 2014, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Wednesday, January 15, 2014. The Shares will be traded in board lots of 2,000 Shares each.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Public Offer Shares, then you may not apply for or indicate an interest for International Placing Shares.

To apply for Hong Kong Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** at www.eipo.com.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Joint Bookrunners, the **White Form eIPO** service provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO**, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Bookrunners may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** for the Hong Kong Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Public Offer Shares if you are:

- an existing beneficial owner of the Shares and/or shares of any of the Company's subsidiaries;

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

- a Director or chief executive officer of the Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Placing Shares or otherwise participate in the International Placing.

3. APPLYING FOR HONG KONG PUBLIC OFFER SHARES

Which Application Channel to Use

For Hong Kong Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.eipo.com.hk.

For Hong Kong Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, December 31, 2013 until 12:00 noon on Tuesday, January 7, 2014 from:

- (i) any of the following offices of the Underwriters:
 - (a) **CCB International Capital Limited** at 12/F, CCB Tower, 3 Connaught Road Central, Central, Hong Kong;
 - (b) **China Galaxy International Securities (Hong Kong) Co., Limited** at Unit 3501-7, 3513-14, 35/F, Cosco Tower, 183 Queen's Road Central, Sheung Wan, Hong Kong;
 - (c) **Guotai Junan Securities (Hong Kong) Limited** at 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong;
 - (d) **Convoy Investment Services Limited** at G/F. & 1/F. Li Po Chambers, 189 Des Voeux Road Central, Hong Kong; and
 - (e) **First Shanghai Securities Limited** at 19/F, Wing On House, 71 Des Voeux Road Central, Hong Kong.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

(ii) any of the branches of the following receiving banks:

(a) **Standard Chartered Bank (Hong Kong) Limited:**

<u>District</u>	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island	Des Voeux Road Branch	Standard Chartered Bank Building, 4-4A, Des Voeux Road Central, Central
	Yun Ping Road Branch	G/F to 2/F, Fortune Centre, 44-48 Yun Ping Road, Causeway Bay, Hong Kong
Kowloon	Kwun Tong Branch	G/F, 414 Kwun Tong Road, Kowloon
	68 Nathan Road Branch	Basement, Shop B1, G/F Golden Crown Court, 66-70 Nathan Road, Tsimshatsui
New Territories	Tseung Kwan O Branch	Shop G37-40, G/F, Hau Tak Shopping Centre East Wing, Hau Tak Estate, Tseung Kwan O

(b) **China Construction Bank (Asia) Corporation Limited:**

<u>District</u>	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island	Central Des Voeux Road Branch	99 Des Voeux Road Central, Central
	North Point Branch	382 King's Road, North Point
Kowloon	Mei Foo Branch	Shop N46, G/F, Mei Foo Sun Chuen, Stage 6
	Kowloon Bay Amoy Gardens Branch	Shop 181, G/F, Phase IIA, Amoy Gardens, Kowloon Bay
New Territories	Tsuen Wan Branch	282 Sha Tsui Road, Tsuen Wan

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, December 31, 2013 until 12:00 noon on Tuesday, January 7, 2014 from the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to Hordsford Nominees Limited — Miko International Public Offer for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

Tuesday, December 31, 2013 — 9:00 a.m. to 5:00 p.m.
Thursday, January 2, 2014 — 9:00 a.m. to 5:00 p.m.
Friday, January 3, 2014 — 9:00 a.m. to 5:00 p.m.
Saturday, January 4, 2014 — 9:00 a.m. to 1:00 p.m.
Monday, January 6, 2014 — 9:00 a.m. to 5:00 p.m.
Tuesday, January 7, 2014 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, January 7, 2014, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Applications Lists" in this section.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO**, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorize the Company and/or the Joint Bookrunners (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of the Company, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing nor participated in the International Placing;
- (viii) agree to disclose to the Company, our Hong Kong Share Registrar, receiving banks, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorize the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Public Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that the Company, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or to the **White Form eIPO** service provider by you or by anyone as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC; and (ii) you have due authority to sign the Application Form or give electronic application instructions on behalf of that other person as their agent.

Additional Instructions for Yellow Application Form

You may refer to the Yellow Application Form for details.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

5. APPLYING THROUGH WHITE FORM eIPO

General

Individuals who meet the criteria in “Who can apply” section, may apply through the **White Form eIPO** for the Offer Shares to be allotted and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the **White Form eIPO** are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorize the **White Form eIPO** service provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO**.

Time for Submitting Applications under the White Form eIPO

You may submit your application to the **White Form eIPO** service provider at www.eipo.com.hk (24 hours daily, except on the last application day) from 9:00 a.m., December 31, 2013 until 11:30 a.m., January 7, 2014 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon, January 7, 2014 or such later time under the “Effects of Bad Weather on the Opening of the Applications Lists” in this section.

No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **White Form eIPO** to make an application for Hong Kong Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 for each “MIKO INTERNATIONAL HOLDINGS LIMITED” **White Form eIPO** application submitted via www.eipo.com.hk to support the funding of “Source of DongJiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give electronic application instructions to apply for the Hong Kong Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these electronic application instructions through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System <https://ip.ccass.com> (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input electronic application instructions for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
2/F Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Bookrunners and our Hong Kong Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given electronic application instructions to apply for the Hong Kong Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong Public Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing;

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

- declare that only one set of electronic application instructions has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of electronic application instructions for the other person's benefit and are duly authorized to give those instructions as their agent;
- confirm that you understand that the Company, the Directors and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorize the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of the Company, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to the Company, our Hong Kong Share Registrar, receiving banks, the Joint Bookrunners, the Underwriters and/or their respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

- agree that once HKSCC Nominees' application is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving electronic application instructions to apply for Hong Kong Public Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving electronic application instructions to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Public Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions for a minimum of 2,000 Hong Kong Public Offer Shares. Instructions for more than 2,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Public Offer Shares will be considered and any such application is liable to be rejected.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

Tuesday, December 31, 2013 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
Thursday, January 2, 2014 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
Friday, January 3, 2014 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
Saturday, January 4, 2014 — 8:00 a.m. to 1:00 p.m.⁽¹⁾
Monday, January 6, 2014 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
Tuesday, January 7, 2014 — 8:00 a.m.⁽¹⁾ to 12:00 noon

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/ Custodian Participants.

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Tuesday, December 31, 2013 until 12:00 noon on Tuesday, January 7, 2014 (24 hours daily, except on the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Tuesday, January 7, 2014, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any electronic application instructions to make an application for the Hong Kong Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving bankers, the Joint Bookrunners, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Public Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Similarly, the

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

application for Hong Kong Public Offer Shares through the **White Form eIPO** is also only a facility provided by the **White Form eIPO** service provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Joint Bookrunners, the Joint Sponsors, the Sole Global Coordinator and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** will be allotted any Hong Kong Public Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of electronic application instructions, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon, Tuesday, January 7, 2014.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or through **White Form eIPO**, is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange. "Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

9. HOW MUCH ARE THE HONG KONG PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** in respect of a minimum of 2,000 Hong Kong Public Offer Shares. Each application or electronic application instruction in respect of more than 2,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.eipo.com.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure of the Global Offering — Pricing and Allocation”.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, December 31, 2013. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Tuesday, January 7, 2014 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Public Offer Shares on Tuesday, January 14, 2014 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the Company’s website at www.redkids.com and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company’s website at www.redkids.com and the Stock Exchange’s website at www.hkexnews.hk by no later than Tuesday, January 14, 2014;

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

- from the designated results of allocations website at www.iporesults.com.hk with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Tuesday, January 14, 2014 to 12:00 midnight on Monday, January 20, 2014;
- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Tuesday, January 14, 2014 to Friday, January 17, 2014;
- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, January 14, 2014 to Thursday, January 16, 2014 at all the receiving bank branches and sub-branches.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Public Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering”.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Public Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or to **White Form eIPO** service provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

(ii) If the Company or its agents exercise their discretion to reject your application:

The Company, the Joint Bookrunners, the **White Form eIPO** service provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Public Offer Shares is void:

The allotment of Hong Kong Public Offer Shares will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks from the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Public Offer Shares and International Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your electronic application instructions through the **White Form eIPO** are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Joint Bookrunners believe that by accepting your application, it would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$2.32 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Tuesday, January 14, 2014.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Public Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by electronic application instructions to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).
- Part of the Hong Kong identity card number/ passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Tuesday, January 14, 2014. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Wednesday, January 15, 2014 provided that the Global Offering has become unconditional and the right of termination described in the “Underwriting” section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, January 14, 2014 or such other date as notified by us in the newspapers.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Tuesday, January 14, 2014, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Tuesday, January 14, 2014, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Tuesday, January 14, 2014, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- **If you apply through a designated CCASS participant (other than a CCASS investor participant)**

For Hong Kong Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offer Shares allotted to you with that CCASS participant.

- **If you are applying as a CCASS investor participant**

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, January 14, 2014 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the White Form eIPO

If you apply for 1,000,000 Hong Kong Public Offer Shares or more and your application is wholly or partially successful, you may collect your share certificate(s) from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, January 14, 2014, or such other date as notified by the Company in the newspapers as the date of despatch/collection of share certificates/e-Refund payment instructions/refund cheques.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Tuesday, January 14, 2014 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Public Offer Shares

For the purposes of allocating Hong Kong Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, January 14, 2014, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Tuesday, January 14, 2014. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, January 14, 2014 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, January 14, 2014. Immediately

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

following the credit of the Hong Kong Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, January 14, 2014.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from our Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

31 December 2013

The Directors
Miko International Holdings Limited

CCB International Capital Limited
China Galaxy International Securities (Hong Kong) Co., Limited

Dear Sirs

Introduction

We set out below our report on the financial information relating to Miko International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") comprising the consolidated statements of financial position of the Group as at 31 December 2010, 2011 and 2012 and 30 June 2013, the statement of financial position of the Company as at 30 June 2013 and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group, for each of the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013 (the "Relevant Periods"), together with the explanatory notes thereto (the "Financial Information"), for inclusion in the prospectus of the Company dated 31 December 2013 (the "Prospectus").

The Company was incorporated in Cayman Islands on 15 March 2013 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a reorganization completed on 16 April 2013 as detailed in the section headed "History and Corporate Structure" in the Prospectus, the Company became the holding company of the companies now comprising the Group, details of which are set out in note 1(b) of Section B below.

As at the date of this report, no audited financial statements have been prepared for Miko International Holdings Limited and Obvious Cheer Investment Development Limited, as they either have not carried out any business since the date of incorporation or are investment holding companies and are not subject to statutory audit requirements under the relevant rules and regulations in their respective jurisdictions of incorporation.

All companies now comprising the Group have adopted 31 December as their financial year end date. Details of the companies comprising the Group that are subject to audit during the Relevant Periods and the names of the respective auditors are set out in note 28 of Section B. The statutory financial statements of these companies were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") or the relevant accounting rules and regulations applicable to enterprises in the People's Republic of China (the "PRC").

The directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods (the “Underlying Financial Statements”) on the same basis as set out in note 1(b) of Section B below. The Underlying Financial Statements for each of the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013 were audited by KPMG Huazhen (Special General Partnership) under separate terms of engagement with the Company in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The Financial Information has been prepared by the directors of the Company for inclusion in the Prospectus in connection with the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

Directors' responsibility for the Financial Information

The directors of the Company are responsible for the preparation of the Financial Information that give a true and fair view in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IASB”), the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline “Prospectuses and the Reporting Accountant” (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 30 June 2013.

Opinion

In our opinion, the Financial Information gives, for the purpose of this report, on the basis of preparation set out in note 1(b) of Section B below, a true and fair view of the state of affairs of the Company as at 30 June 2013 and the state of affairs of the Group as at 31 December 2010, 2011 and 2012 and 30 June 2013 and the Group's consolidated results and cash flows for the Relevant Periods then ended.

Corresponding financial information

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the six months ended 30 June 2012, together with the notes thereon (the “Corresponding Financial Information”), for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A Consolidated Financial Information of the Group

1 Consolidated statements of comprehensive income

	Section B Note	Year ended 31 December			Six months ended 30 June	
		2010	2011	2012	2012	2013
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Turnover	2	326,974	392,369	519,987	176,548	253,185
Cost of sales		(195,554)	(248,460)	(324,173)	(113,090)	(158,546)
Gross profit		131,420	143,909	195,814	63,458	94,639
Other revenue	3	155	619	218	154	230
Other net (loss) / income	3	(66)	(98)	1	3	(781)
Selling and distribution expenses		(33,808)	(43,053)	(49,542)	(19,103)	(22,509)
Administrative and other operating expenses		(9,007)	(11,316)	(13,233)	(5,621)	(12,262)
Profit from operations		88,694	90,061	133,258	38,891	59,317
Finance costs	4(a)	(1,877)	(2,179)	(2,477)	(1,094)	(1,582)
Profit before taxation	4	86,817	87,882	130,781	37,797	57,735
Income tax	5	(10,872)	(10,559)	(15,343)	(4,042)	(15,507)
Profit for the year/period		75,945	77,323	115,438	33,755	42,228
Other comprehensive income for the year/period						
Exchange differences on translation of financial information of operations outside the mainland China		1,305	2,795	(7)	(313)	2,258
Total comprehensive income for the year/period		77,250	80,118	115,431	33,442	44,486
Earnings per share (RMB cents)						
— basic and diluted	8	12	12	18	5	7

The accompanying notes form part of the Financial Information.

2 Consolidated statements of financial position

	Section B Note	As at 31 December			As at 30 June
		2010 RMB'000	2011 RMB'000	2012 RMB'000	2013 RMB'000
Non-current assets					
Property, plant and equipment	9	47,021	44,044	40,776	39,217
Intangible assets	10	82	68	54	47
Lease prepayments	11	3,293	3,205	3,117	3,073
Deposits for purchase of property	9(d)	—	—	—	51,750
Deferred tax assets	13(b)	3,648	1,612	2,968	2,611
		<u>54,044</u>	<u>48,929</u>	<u>46,915</u>	<u>96,698</u>
Current assets					
Inventories	14	70,579	81,809	27,873	31,222
Trade and other receivables	15	93,106	143,629	283,301	222,709
Pledged bank deposits	16	—	2,850	3,880	2,000
Cash and cash equivalents	17	55,210	4,004	8,894	186,424
		<u>218,895</u>	<u>232,292</u>	<u>323,948</u>	<u>442,355</u>
Current liabilities					
Bank loans	18	42,500	22,400	38,800	68,590
Trade and other payables	19	182,445	133,069	89,483	180,787
Current tax payable	13(a)	7,299	4,939	6,336	7,512
		<u>232,244</u>	<u>160,408</u>	<u>134,619</u>	<u>256,889</u>
Net current (liabilities) / assets		<u>(13,349)</u>	<u>71,884</u>	<u>189,329</u>	<u>185,466</u>
NET ASSETS		<u>40,695</u>	<u>120,813</u>	<u>236,244</u>	<u>282,164</u>
CAPITAL AND RESERVES					
Capital	21	520	520	520	8
Reserves	22	40,175	120,293	235,724	282,156
TOTAL EQUITY		<u>40,695</u>	<u>120,813</u>	<u>236,244</u>	<u>282,164</u>

The accompanying notes form part of the Financial Information.

3 Statement of financial position of the Company

	<u>Section B Note</u>	<u>As at 30 June 2013</u> RMB'000
Non-current assets		
Investments in subsidiaries	12	—
Current assets		
Prepayments	15	1,820
Cash and cash equivalents	17	35
		<u>1,855</u>
Current liabilities		
Amounts due to subsidiaries	19	1,852
		<u>1,852</u>
Net current assets		<u>3</u>
NET ASSETS		<u>3</u>
CAPITAL AND RESERVE		
Capital	21	8
Reserve		(5)
TOTAL EQUITY		<u>3</u>

The accompanying notes form part of the Financial Information.

4 Consolidated statements of changes in equity

	Section B Note	Capital RMB'000 note 21	Statutory reserve RMB'000 note 22(b)	Exchange reserve RMB'000 note 22(a)	Share-based payment reserve RMB'000 note 22(c)	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2010		520	—	1,415	—	(38,490)	(36,555)
Changes in equity for 2010:							
Total comprehensive income for the year		—	—	1,305	—	75,945	77,250
Appropriation to statutory reserve	22(b)	—	3,748	—	—	(3,748)	—
At 31 December 2010 and 1 January 2011		520	3,748	2,720	—	33,707	40,695
Changes in equity for 2011:							
Total comprehensive income for the year		—	—	2,795	—	77,323	80,118
Appropriation to statutory reserve	22(b)	—	7,732	—	—	(7,732)	—
At 31 December 2011 and 1 January 2012		520	11,480	5,515	—	103,298	120,813
Changes in equity for 2012:							
Total comprehensive income for the year		—	—	(7)	—	115,438	115,431
Appropriation to statutory reserve	22(b)	—	11,545	—	—	(11,545)	—
At 31 December 2012 and 1 January 2013		520	23,025	5,508	—	207,191	236,244
Changes in equity for the six months ended 30 June 2013							
Shares issued for							
Reorganization		8	—	—	—	—	8
Reduction in capital upon Reorganization		(520)	—	—	—	—	(520)
Total comprehensive income for the period		—	—	2,258	—	42,228	44,486
Equity-settled share-based payments	22(c)	—	—	—	1,946	—	1,946
Appropriation to statutory reserve	22(b)	—	4,426	—	—	(4,426)	—
At 30 June 2013		<u>8</u>	<u>27,451</u>	<u>7,766</u>	<u>1,946</u>	<u>244,993</u>	<u>282,164</u>
<i>(Unaudited)</i>							
At 1 January 2012		520	11,480	5,515	—	103,298	120,813
Changes in equity for the six months ended 30 June 2012							
Total comprehensive income for the period		—	—	(313)	—	33,755	33,442
Appropriation to statutory reserve	22(b)	—	3,376	—	—	(3,376)	—
At 30 June 2012		<u>520</u>	<u>14,856</u>	<u>5,202</u>	<u>—</u>	<u>133,677</u>	<u>154,255</u>

The accompanying notes form part of the Financial Information.

5 Consolidated cash flow statements

	Section B Note	Years ended 31 December			Six months ended 30 June	
		2010	2011	2012	2012	2013
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Operating activities						
Cash (used in)/generated from						
operations	17(b)	(2,121)	8,565	30,439	40,785	122,688
Income tax paid		(6,238)	(10,883)	(15,302)	(6,840)	(13,974)
Net cash (used in)/generated from operating activities		<u>(8,359)</u>	<u>(2,318)</u>	<u>15,137</u>	<u>33,945</u>	<u>108,714</u>
Investing activities						
Payment for the purchase of property, plant and equipment		(2,428)	(556)	(67)	(46)	(51,750)
Interest received		33	258	212	154	230
Net cash (used in)/generated from investing activities		<u>(2,395)</u>	<u>(298)</u>	<u>145</u>	<u>108</u>	<u>(51,520)</u>
Financing activities						
Proceeds from bank loans		42,500	33,400	44,800	28,900	54,690
Repayment of bank loans		(26,000)	(53,500)	(28,400)	(19,000)	(24,900)
Net advance from/(repayment to) the parent company and related parties		46,908	(27,307)	(24,315)	(24,317)	90,382
Interest paid		(1,877)	(2,179)	(2,477)	(1,094)	(1,582)
Net cash generated from/(used in) financing activities		<u>61,531</u>	<u>(49,586)</u>	<u>(10,392)</u>	<u>(15,511)</u>	<u>118,590</u>
Net increase/(decrease) in cash and cash equivalents		50,777	(52,202)	4,890	18,542	175,784
Cash and cash equivalents at 1 January		3,693	55,210	4,004	4,004	8,894
Effect of foreign exchange rate changes		740	996	—	(7)	1,746
Cash and cash equivalents at 31 December/30 June	17(a)	<u>55,210</u>	<u>4,004</u>	<u>8,894</u>	<u>22,539</u>	<u>186,424</u>

The accompanying notes form part of the Financial Information.

B Notes to the Financial Information**1 Significant accounting policies****(a) Statement of compliance**

The Financial Information set out in this report has been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which collective term includes International Accounting Standards and related interpretations, promulgated by the International Accounting Standards Board (“IASB”). Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Financial Information, the Group has adopted all applicable new and revised IFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period commencing on 1 January 2013. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period commencing on 1 January 2013 are set out in note 30.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

The Corresponding Financial Information for the six months ended 30 June 2012 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Financial Information.

(b) Basis of preparation and presentation

The Company was incorporated in the Cayman Islands on 15 March 2013 as part of the group reorganization undertaken by the Group. On 16 April 2013, the Company became the holding company of the companies now comprising the Group. The reorganization completed on 16 April 2013 has been accounted for in accordance with the principle similar to a reverse acquisition as set out in IFRS 3, “Business Combinations”. The issue of shares of the Company in exchange for the controlling interest in Red Kids Group (Hong Kong) Limited (“Red Kids Hong Kong”) and the connected share swap between the Company, Obvious Cheer Investment Development Limited and Red Kids Hong Kong resulted in the Company becoming the holding company of Red Kids Hong Kong. The Financial Information has been prepared as a continuation of Red Kids Hong Kong and the consolidated assets and liabilities of Red Kids Hong Kong are recognized and measured at their historical carrying values prior to 16 April 2013.

All material intra-group transactions and balances have been eliminated on consolidation.

At the date of this report, the Company has direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of company	Place and date of incorporation/ establishment	Issued and fully paid up capital/registered capital	Proportion of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Obvious Cheer Investment Development Limited ("Obvious Cheer")	British Virgin Islands ("BVI")/ 2 January 2013	USD1	100%	—	Investment holding
Red Kids Group (Hong Kong) Limited ("Red Kids Hong Kong")	Hong Kong/ 29 July 2005	HK\$500,000	—	100%	Investment holding
Red Kids (China) Co., Ltd. ("Red Kids China")* 紅孩兒(中國)有限公司	PRC/ 10 January 2000	HK\$160,000,000	—	100%	Design, manufacture and sales of children apparel products
Miko (Shanghai) Apparels Co., Ltd.* 米格(上海)服飾有限公司	PRC/ 24 June 2013	HK\$20,000,000	—	100%	Trading and retailing of children apparel products

* The English translation of the company name is for reference only. The official names of these companies are in Chinese.

(c) ***Basis of measurement***

The Financial Information is presented in Renminbi ("RMB"), rounded to the nearest thousand. RMB is the functional currency and the reporting currency for the Company's subsidiaries established in the mainland China. The functional currency of the Company and its subsidiaries outside the mainland China is Hong Kong Dollar ("HK\$").

The Financial Information is prepared on the historical cost basis.

(d) ***Use of estimates and judgments***

The preparation of Financial Information in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the Financial Information and the major sources of estimation uncertainty are discussed in note 27.

(e) *Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights are considered.

An investment in a subsidiary is consolidated into the Financial Information from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

(f) *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(j)(ii)).

Construction in progress represents property, plant and equipment under construction and equipment pending for installation, and is stated at cost less impairment losses (see note 1(j)(ii)). Cost comprises direct cost of construction. Capitalization of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are complete.

No depreciation is provided in respect of construction in progress.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

- Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 20 years after the date of completion.
- Machinery 10 years
- Motor vehicles 5 years
- Furniture, fixtures and equipment 5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

(g) *Lease prepayments*

Lease prepayments represent cost of acquiring land use rights paid to the PRC's governmental authorities. Land use rights are carried at cost less accumulated amortization and impairment losses (see note 1(j)(ii)). Amortization is charged to profit or loss on a straight-line basis over the respective periods of the rights.

(h) *Intangible assets*

Intangible assets that are acquired by the Group are stated at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see note 1(j)(ii)).

Amortization of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. Computer software is amortized from the date they are available for use for 10 years.

Both the useful life and method of amortization are reviewed annually.

(i) *Operating lease charges*

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal installments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in profit or loss as an integral part of the aggregate net lease payments made.

(j) *Impairment of assets*

(i) Impairment of trade and other receivables

Trade and other receivables that are stated at cost or amortized cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior periods.

Impairment losses recognized in respect of trade and bills receivables are included within trade and other receivables, whose recovery is considered doubtful and not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and bills receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognized no longer exists or may have decreased:

- property, plant and equipment;
- lease prepayments;
- intangible assets; and
- investment in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use, (if determinable).

- Reversals of impairment losses

An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior periods. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognized.

(k) Inventories

Inventories are carried at the lower of cost and net realizable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(l) Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost less impairment losses for bad and doubtful debts (see note 1(j)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(j)(i)).

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any interest recognized in profit or loss over the period of the borrowings using the effective interest method.

(n) Trade and other payables

Trade and other payables are initially recognized at fair value and subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily

convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(p) *Employee benefits*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(q) *Income tax*

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to business combinations, or items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to set off current tax assets against current tax.

(r) ***Financial guarantees issued, provisions and contingent liabilities***

(i) Financial guarantees issued

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognized as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where there is no consideration received or receivable, an immediate expense is also recognized in profit or loss on initial recognition of any deferred income. The amount of the guarantee initially recognized as deferred income is amortized in profit or loss over the term of the guarantee as income from financial guarantees issued.

(ii) Provisions and contingent liabilities

Provisions are recognized for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) ***Revenue recognition***

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

(i) Sale of goods

Revenue is recognized when goods are delivered and when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognized as it accrues using the effective interest method.

(iii) Government grants

Government grants are recognized in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognized as income in profit or loss on a systematic basis in the same period in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in profit or loss over the useful lives of the asset by way of reduced depreciation expense.

(t) *Translation of foreign currencies*

Foreign currency transactions during the period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognized in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations with functional currency other than Renminbi are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Renminbi at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

(u) *Borrowing costs*

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

(v) *Related parties*

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close family members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(w) ***Segment reporting***

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Group operates in a single business, manufacturing and wholesaling of children's apparel products in the PRC. Accordingly, no segmental analysis is presented.

2 Turnover

The principal activities of the Group are design, manufacture and sales of children's apparel products. Turnover represents the sales value of goods sold less returns, discounts and value added taxes.

The Group's revenue by geographical location is determined by the destination to which the goods are delivered.

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
PRC	315,062	384,881	517,246	174,639	252,550
Overseas	11,912	7,488	2,741	1,909	635
	<u>326,974</u>	<u>392,369</u>	<u>519,987</u>	<u>176,548</u>	<u>253,185</u>

The Group's customer base is diversified and only one customer with whom transactions have exceeded 10% of the Group's turnover for the year ended 31 December 2012 and the six months ended 30 June 2012 and 2013, respectively. The amount of sales to this customer, Shanghai Red Kids E-commerce Co., Ltd. (see also note 26) amounted to approximately RMB87,827,000 and RMB24,505,000 (unaudited) and RMB37,096,000 for the year ended 31 December 2012 and the six months ended 30 June 2012 and 2013, respectively. Details of concentration of credit risk are set out in note 23(a).

3 Other revenue and other net (loss)/income

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Other revenue					
Interest income	33	258	212	154	230
Government grants	114	—	6	—	—
Others	8	361	—	—	—
	<u>155</u>	<u>619</u>	<u>218</u>	<u>154</u>	<u>230</u>
Other net (loss)/income					
Net foreign exchange (loss)/gain	<u>(66)</u>	<u>(98)</u>	<u>1</u>	<u>3</u>	<u>(781)</u>

4 Profit before taxation

Profit before taxation is arrived at after charging:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
(a) Finance costs					
Interest on bank loans	1,877	2,179	2,477	1,094	1,582
(b) Staff costs					
Contributions to defined contribution retirement plans (note 20)	458	627	254	126	102
Salaries, wages and other benefits	33,022	33,602	34,644	13,600	12,897
	<u>33,480</u>	<u>34,229</u>	<u>34,898</u>	<u>13,726</u>	<u>12,999</u>
(c) Other items					
Amortization					
— lease prepayments	88	88	88	44	44
— intangible assets	14	14	14	7	7
Depreciation	2,929	3,533	3,335	1,718	1,559
Auditor's remuneration	18	14	15	7	15
Operating lease charges in respect of properties	54	110	75	42	755
Cost of inventories#	195,554	248,460	324,173	113,090	158,546

Cost of inventories includes RMB28,038,000, RMB26,185,000, RMB24,915,000 and RMB9,423,000 (unaudited) and RMB7,936,000 for the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2012 and 2013, respectively, relating to staff costs and depreciation, which amount is also included in the respective total amounts disclosed separately above or in note 4(b) for each of these types of expenses.

5 Income tax in the consolidated statements of comprehensive income

(a) Income tax in the consolidated statements of comprehensive income represents:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Current tax					
PRC corporate income tax	13,537	8,523	16,699	4,714	15,150
Deferred tax					
Origination and reversal of temporary differences (note 13(b))	(2,665)	2,036	(1,356)	(672)	357
	<u>10,872</u>	<u>10,559</u>	<u>15,343</u>	<u>4,042</u>	<u>15,507</u>

(b) *Reconciliation between tax expense and accounting profit at applicable tax rates:*

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before taxation	86,817	87,882	130,781	37,797	57,735
Notional tax on profit before taxation, calculated at the standard tax rates applicable to the respective tax jurisdictions	21,706	21,971	32,696	9,449	14,929
Tax effect of PRC preferential tax treatment (iii)	(10,854)	(10,986)	(16,349)	(4,724)	—
Effect of non-deductible expenses	20	24	29	9	578
Effect on deferred tax balances at 1 January resulting from a change in tax rate	—	(450)	(1,033)	(692)	—
Actual tax expense	<u>10,872</u>	<u>10,559</u>	<u>15,343</u>	<u>4,042</u>	<u>15,507</u>

- (i) Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group is not subject to any income tax in the Cayman Islands or BVI.
- (ii) No provision was made for Hong Kong Profits Tax as the Group did not earn any assessable profit subject to Hong Kong Profits Tax during the Relevant Periods.
- (iii) Red Kids China, being a production-type foreign investment enterprise, was entitled to a tax holiday of 2-year full exemption followed by 3-year 50% reduction in the income tax rate commencing from its first profit making year according to PRC Corporate Income Tax Law (“2+3” tax holiday) since 2008. Accordingly, it is subject to income tax at 12.5% from 2010 to 2012 and 25% from 2013 onwards, respectively.

6 Directors' remuneration

Directors' remuneration is as follows:

Year ended 31 December 2010

	Fee	Basic salaries, allowances and other benefits	Contributions to defined contribution retirement plans	Discretionary bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr. Ding Peiji	—	172	8	50	230
Mr. Ding Peiyuan	—	116	2	30	148
Ms. Ding Lizhen	—	164	7	30	201
Mr. Gu Jishi	—	449	2	10	461
	<u>—</u>	<u>901</u>	<u>19</u>	<u>120</u>	<u>1,040</u>

Year ended 31 December 2011

	Fee	Basic salaries, allowances and other benefits	Contributions to defined contribution retirement plans	Discretionary bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr. Ding Peiji	—	300	8	50	358
Mr. Ding Peiyuan	—	240	2	30	272
Ms. Ding Lizhen	—	239	7	40	286
Mr. Gu Jishi	—	598	2	—	600
	<u>—</u>	<u>1,377</u>	<u>19</u>	<u>120</u>	<u>1,516</u>

Year ended 31 December 2012

	Fee	Basic salaries, allowances and other benefits	Contributions to defined contribution retirement plans	Discretionary bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr. Ding Peiji	—	339	8	30	377
Mr. Ding Peiyuan	—	294	2	26	322
Ms. Ding Lizhen	—	295	7	26	328
Mr. Gu Jishi	—	604	2	11	617
	<u>—</u>	<u>1,532</u>	<u>19</u>	<u>93</u>	<u>1,644</u>

Six months ended 30 June 2012 (unaudited)

	Fee	Basic salaries, allowances and other benefits	Contributions to defined contribution retirement plans	Discretionary bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr. Ding Peiji	—	160	4	—	164
Mr. Ding Peiyuan	—	137	1	—	138
Ms. Ding Lizhen	—	139	3	—	142
Mr. Gu Jishi	—	297	1	—	298
	<u>—</u>	<u>733</u>	<u>9</u>	<u>—</u>	<u>742</u>

Six months ended 30 June 2013

	Fee	Basic salaries, allowances and other benefits	Contributions to defined contribution retirement plans	Discretionary bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr. Ding Peiji	—	298	4	—	302
Mr. Ding Peiyuan	—	257	1	—	258
Ms. Ding Lizhen	—	258	3	—	261
Mr. Gu Jishi	—	339	1	—	340
	<u>—</u>	<u>1,152</u>	<u>9</u>	<u>—</u>	<u>1,161</u>

During the Relevant Periods, there were no amounts paid or payable by the Group to the directors or any of the highest paid individuals set out in note 7 below as an inducement to join or upon joining the Group or as a compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

7 Individual with highest emoluments

Of the five individuals with the highest emoluments, four of them are directors during the Relevant Periods, whose emolument is disclosed in note 6 above. The emoluments in respect of the remaining individual are as follows:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries and other emoluments	110	121	213	97	113
Contributions to defined contribution retirement plans	<u>2</u>	<u>2</u>	<u>2</u>	<u>1</u>	<u>1</u>
	<u>112</u>	<u>123</u>	<u>215</u>	<u>98</u>	<u>114</u>

The emoluments of the above individual with the highest emoluments are within the following bands:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	Number of individuals	Number of individuals	Number of individuals	Number of individuals	Number of individuals
HK\$ Nil to 1,000,000	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

8 Earnings per share

The calculation of basic earnings per share during the Relevant Periods is based on the profit for the respective year/period and on the assumption that 640,000,000 ordinary shares of the Company had been in issued throughout the Relevant Periods comprising 1,000,000

ordinary shares in issue as at the date of the Prospectus, and 639,000,000 ordinary shares to be issued pursuant to the capitalization issue as detailed in the section headed "Share Capital" in the Prospectus.

There were no dilutive potential ordinary shares during the Relevant Periods and, therefore, diluted earnings per share are the same as the basic earnings per share.

9 Property, plant and equipment

	<u>Buildings</u>	<u>Machinery</u>	<u>Motor vehicles</u>	<u>Furniture, fixtures and equipment</u>	<u>Sub-total</u>	<u>Construction in progress</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:							
At 1 January 2010	37,852	7,581	4,009	2,383	51,825	11,211	63,036
Additions	—	2	650	380	1,032	1,396	2,428
Transfer from construction in progress	<u>12,607</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>12,607</u>	<u>(12,607)</u>	<u>—</u>
At 31 December 2010 and 1 January 2011	50,459	7,583	4,659	2,763	65,464	—	65,464
Additions	<u>—</u>	<u>41</u>	<u>—</u>	<u>515</u>	<u>556</u>	<u>—</u>	<u>556</u>
At 31 December 2011 and 1 January 2012	50,459	7,624	4,659	3,278	66,020	—	66,020
Additions	<u>—</u>	<u>—</u>	<u>34</u>	<u>33</u>	<u>67</u>	<u>—</u>	<u>67</u>
At 31 December 2012 and 30 June 2013	<u>50,459</u>	<u>7,624</u>	<u>4,693</u>	<u>3,311</u>	<u>66,087</u>	<u>—</u>	<u>66,087</u>
Accumulated depreciation:							
At 1 January 2010	6,621	5,162	2,344	1,387	15,514	—	15,514
Charge for the year	<u>1,845</u>	<u>484</u>	<u>344</u>	<u>256</u>	<u>2,929</u>	<u>—</u>	<u>2,929</u>
At 31 December 2010 and 1 January 2011	8,466	5,646	2,688	1,643	18,443	—	18,443
Charge for the year	<u>2,325</u>	<u>479</u>	<u>436</u>	<u>293</u>	<u>3,533</u>	<u>—</u>	<u>3,533</u>
At 31 December 2011 and 1 January 2012	10,791	6,125	3,124	1,936	21,976	—	21,976
Charge for the year	<u>2,271</u>	<u>329</u>	<u>437</u>	<u>298</u>	<u>3,335</u>	<u>—</u>	<u>3,335</u>
At 31 December 2012 and 1 January 2013	13,062	6,454	3,561	2,234	25,311	—	25,311
Charge for the period	<u>1,135</u>	<u>61</u>	<u>219</u>	<u>144</u>	<u>1,559</u>	<u>—</u>	<u>1,559</u>
At 30 June 2013	<u>14,197</u>	<u>6,515</u>	<u>3,780</u>	<u>2,378</u>	<u>26,870</u>	<u>—</u>	<u>26,870</u>
Net book value:							
At 31 December 2010	<u>41,993</u>	<u>1,937</u>	<u>1,971</u>	<u>1,120</u>	<u>47,021</u>	<u>—</u>	<u>47,021</u>
At 31 December 2011	<u>39,668</u>	<u>1,499</u>	<u>1,535</u>	<u>1,342</u>	<u>44,044</u>	<u>—</u>	<u>44,044</u>
At 31 December 2012	<u>37,397</u>	<u>1,170</u>	<u>1,132</u>	<u>1,077</u>	<u>40,776</u>	<u>—</u>	<u>40,776</u>
At 30 June 2013	<u>36,262</u>	<u>1,109</u>	<u>913</u>	<u>933</u>	<u>39,217</u>	<u>—</u>	<u>39,217</u>

- (a) All property, plant and equipment owned by the Group are located in the PRC.
- (b) At 31 December 2010, 2011 and 2012, buildings with net book value of RMB12,144,000, nil and RMB10,447,000 were mortgaged to banks for certain banking facilities granted to Red Kids (Fujian) Children Articles Co., Ltd., a related party of the Group (see note 26). The mortgage has been released before 30 June 2013.
- At 30 June 2013, buildings with net book value of RMB10,022,000 were mortgaged to banks for certain banking facilities granted to the Red Kids China.
- (c) At 31 December 2010, 2011, 2012 and 30 June 2013, the ownership certificates for buildings with net book value of RMB27,333,000, RMB26,041,000, RMB24,750,000 and RMB24,104,000 respectively have not been obtained.
- (d) The Group made prepayments for the acquisition of certain properties held for own use under development in the PRC.

10 Intangible assets

	<u>Computer software</u> RMB'000
Cost:	
At 1 January 2010, 31 December 2010 and 2011 and 2012 and 30 June 2013	144
Accumulated amortization:	
At 1 January 2010	48
Amortization for the year	14
At 31 December 2010 and 1 January 2011	62
Amortization for the year	14
At 31 December 2011 and 1 January 2012	76
Amortization for the year	14
At 31 December 2012 and 1 January 2013	90
Amortization for the period	7
At 30 June 2013	97
Net book value:	
At 31 December 2010	<u>82</u>
At 31 December 2011	<u>68</u>
At 31 December 2012	<u>54</u>
At 30 June 2013	<u>47</u>

The amortization for the year/period is included in administrative and other operating expenses in the consolidated statements of comprehensive income.

11 Lease prepayments

	RMB'000
Cost:	
At 1 January 2010, 31 December 2010 and 2011 and 2012 and 30 June 2013	4,206
Accumulated amortization:	
At 1 January 2010	825
Amortization for the year	88
At 31 December 2010 and 1 January 2011	913
Amortization for the year	88
At 31 December 2011 and 1 January 2012	1,001
Amortization for the year	88
At 31 December 2012 and 1 January 2013	1,089
Amortization for the period	44
At 30 June 2013	<u>1,133</u>
Net book value:	
At 31 December 2010	<u>3,293</u>
At 31 December 2011	<u>3,205</u>
At 31 December 2012	<u>3,117</u>
At 30 June 2013	<u>3,073</u>

At 31 December 2010, 2011 and 2012, lease prepayments with net book value of RMB2,062,000, nil and RMB1,953,000 were mortgaged to banks for certain banking facilities granted to Red Kids (Fujian) Children Articles Co., Ltd., a related party of the Group (see note 26). The mortgage has been released before 30 June 2013.

At 30 June 2013, lease prepayments with net book value of RMB1,925,000 were mortgaged to banks for certain banking facilities granted to Red Kids China.

12 Investments in subsidiaries

Investments in subsidiaries are stated at cost. Details of subsidiaries are set out in note 1(b) of Section B of the Financial Information.

13 Income tax in the consolidated statements of financial position**(a) Current taxation in the consolidated statements of financial position represents:**

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Provision for PRC corporate income tax	<u>7,299</u>	<u>4,939</u>	<u>6,336</u>	<u>7,512</u>

(b) Deferred tax assets recognized:

The components of deferred tax assets recognized in the consolidated statements of financial position and the movements during the Relevant Periods are as follows:

	<u>Accrued expenses</u>
	<u>RMB'000</u>
At 1 January 2010	983
Credited to consolidated statements of comprehensive income (note 5(a))	<u>2,665</u>
At 31 December 2010 and at 1 January 2011	3,648
Charged to consolidated statements of comprehensive income (note 5(a))	<u>(2,036)</u>
At 31 December 2011 and at 1 January 2012	1,612
Credit to consolidated statements of comprehensive income (note 5(a))	<u>1,356</u>
At 31 December 2012 and at 1 January 2013	2,968
Charged to consolidated statements of comprehensive income (note 5(a))	<u>(357)</u>
At 30 June 2013	<u><u>2,611</u></u>

(c) Deferred tax liabilities not recognized

According to the PRC Corporate Income Tax Law and its implementation rules, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to withholding tax at a rate of 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. In addition, under the Sino-Hong Kong Double Tax Arrangement and its relevant regulations, a qualified Hong Kong tax resident will be liable for withholding tax at the rate of 5% for dividend income derived from the PRC if the Hong Kong tax resident is the "beneficial owner" and holds 25% or more of the equity interests of the PRC company.

At 31 December 2010, 2011, 2012 and 30 June 2013, deferred tax liabilities in respect of taxable temporary differences related to the undistributed profits of the Group's PRC's subsidiaries amounted to RMB33,728,000, RMB103,321,000, RMB207,222,000 and RMB247,057,000, respectively were not recognized as the Company controls the dividend policy of the Group's subsidiaries and the directors have determined that these profits are not likely to be distributed in the foreseeable future.

14 Inventories

Inventories in the consolidated statements of financial position comprise:

	<u>As at 31 December</u>			<u>As at</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>30 June</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>2013</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Raw materials	840	9,386	4,476	3,106
Work in progress	6,711	13,748	9,796	10,626
Finished goods	63,028	58,675	13,601	17,490
	<u>70,579</u>	<u>81,809</u>	<u>27,873</u>	<u>31,222</u>

15 Trade and other receivables

The Group

	As at 31 December			As at
	2010	2011	2012	30 June
	RMB'000	RMB'000	RMB'000	2013
				RMB'000
Trade receivables				
— third parties	48,096	104,418	196,367	149,427
— related parties	919	11,138	5,415	8,215
Trade receivables	49,015	115,556	201,782	157,642
Prepayments to suppliers	40	4,908	42,033	62,365
Amounts due from related parties	36,091	22,663	1,000	—
Amount due from the ultimate controlling party	—	—	36,429	—
Other deposits, prepayments and receivables	7,960	502	2,057	2,702
	<u>93,106</u>	<u>143,629</u>	<u>283,301</u>	<u>222,709</u>

For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, certain amounts of turnover and trade receivables at the end of each reporting periods are related to sales made to related parties (see also note 26(a) for further details). There were no specific payment terms stated in the sales agreements before 1 January 2013. The management considers that these related parties are under the control of family members of the ultimate controlling party, Mr. Ding Peiji, hence no material credit risk exists on receivables from these related parties.

Normally, the Group does not obtain collateral from customers. Credit evaluations are performed by the senior management on all customers with credit sales.

At 31 December 2010, 2011 and 2012, amounts due from related parties and amount due from the ultimate controlling party are unsecured, interest-free and have no fixed repayment terms.

(a) Ageing analysis

Before 1 January 2013, as there were no specific payment terms stated in the sales agreements, the management considers that the disclosure of due date ageing analysis of trade receivables as at 31 December 2010, 2011 and 2012 is not meaningful to the Group. An ageing analysis of trade receivables as at 31 December 2010, 2011 and 2012 and 30 June 2013 based on invoice dates is presented below.

	As at 31 December			As at
	2010	2011	2012	30 June
	RMB'000	RMB'000	RMB'000	2013
				RMB'000
Within 3 months	49,008	95,440	200,083	157,508
More than 3 months but within 6 months	7	5,426	1,698	133
More than 6 months but within 1 year	—	9,489	1	1
More than 1 year	—	5,201	—	—
	<u>49,015</u>	<u>115,556</u>	<u>201,782</u>	<u>157,642</u>

Since 1 January 2013, the Group has enhanced credit evaluation and control policy and has adopted specific payment terms in its sales agreements. In general, the credit period granted to customers is 90 days.

As at 30 June 2013, current balance included in trade receivables amounted to RMB157,508,000. Amount past due amounted to RMB134,000. Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using allowance account unless the Group is satisfied that the recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 1(j)(i)). For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, the Group did not record any impairment losses in respect of trade receivables.

The Company

The prepayments at 30 June 2013 represent amounts paid in connection with the proposed listing of the Company's shares on the Main Board of the Stock Exchange.

16 Pledged bank deposits

Bank deposits have been pledged as security for bills payable (see note 19).

17 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

The Group

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and in hand	55,210	4,004	8,894	186,424

The Company

	As at 30 June
	2013
	RMB'000
Cash at bank	35

At 31 December 2010, 2011 and 2012 and 30 June 2013, cash and cash equivalents of the Group placed with banks in the mainland China amounted to RMB12,721,000, RMB3,419,000 and RMB8,564,000 and RMB152,577,000 respectively.

Remittance of funds out of the mainland China is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

(b) Reconciliation of profit before taxation to cash (used in)/generated from operations:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before taxation	86,817	87,882	130,781	37,797	57,735
Adjustments for:					
Depreciation	2,929	3,533	3,335	1,718	1,559
Amortization of intangible assets	14	14	14	7	7
Amortization of lease prepayments	88	88	88	44	44
Equity-settled share-based payments	—	—	—	—	1,946
Finance costs	1,877	2,179	2,477	1,094	1,582
Interest income	(33)	(258)	(212)	(154)	(230)
Changes in working capital:					
(Increase)/decrease in inventories	(28,665)	(11,230)	53,936	50,232	(3,349)
(Increase)/decrease in trade and other receivables	(75,988)	(50,523)	(139,672)	(16,378)	60,592
Increase/(decrease) in trade and other payables	10,195	(20,270)	(19,278)	(35,742)	922
Decrease/(increase) in pledged deposits	645	(2,850)	(1,030)	2,167	1,880
Cash (used in)/generated from operations	<u>(2,121)</u>	<u>8,565</u>	<u>30,439</u>	<u>40,785</u>	<u>122,688</u>

18 Bank loans

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans				
— unsecured	42,500	22,400	38,800	40,590
— secured	—	—	—	28,000
	<u>42,500</u>	<u>22,400</u>	<u>38,800</u>	<u>68,590</u>

19 Trade and other payables

The Group

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	6,135	2,569	4,953	9,800
Bills payable (note (a))	—	5,903	6,146	5,000
Trade and bills payables (note (b))	6,135	8,472	11,099	14,800
Receipts in advance				
— third parties	5,157	105	577	604
— related parties	1,606	—	—	—
Amount due to the ultimate controlling party	29,035	29,043	—	—
Amounts due to related parties	108,104	80,797	56,383	146,765
Other payables and accruals	32,408	14,652	21,424	18,618
	<u>182,445</u>	<u>133,069</u>	<u>89,483</u>	<u>180,787</u>

All of the trade and other payables are expected to be settled or recognized as income within one year or are repayable on demand.

At 31 December 2010, 2011 and 2012 and 30 June 2013, amounts due to related parties are non-trade related, unsecured, interest-free and have no fixed repayment terms.

At 31 December 2010 and 2011, amount due to the ultimate controlling party is unsecured, interest-free and has no fixed repayment terms.

The directors of the Company confirm that amounts due to related parties as at 30 June 2013 represent the amount due to Think Wise Holdings Investment Limited, which will be waived prior to the listing of the Company's shares on the Stock Exchange.

(a) Bills payable as at 31 December 2011 and 2012 and 30 June 2013 were secured by pledged bank deposits (see note 16).

(b) *An ageing analysis of the trade and bills payables based on invoice dates is as follows:*

	As at 31 December			As at 30
	2010	2011	2012	June
	RMB'000	RMB'000	RMB'000	2013
				RMB'000
Within 3 months	6,135	6,456	11,099	14,710
More than 3 months but within 6 months	—	2,001	—	90
More than 6 months but within 1 year	—	15	—	—
	<u>6,135</u>	<u>8,472</u>	<u>11,099</u>	<u>14,800</u>

The Company

Amounts due to subsidiaries are unsecured, interest free and have no fixed repayment terms.

20 Employee retirement benefits

Defined contribution retirement plans

The PRC subsidiaries of the Group participate in defined contribution retirement benefit schemes (the "Schemes") organized by the PRC municipal and provincial government authorities whereby the PRC subsidiaries are required to make contributions at the rate of 12% to 22% of the eligible employees' salaries to the Schemes. The Group has accrued for the required contributions which are remitted to the respective local government authorities when the contributions become due. The local government authorities are responsible for the pension obligations payable to the retired employees covered under the Schemes.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$25,000. Contributions to the plan vest immediately.

The Group has no other material obligation for the payment of pension benefits beyond the contributions described above.

21 Capital

The Company was incorporated on 15 March 2013 in the Cayman Islands with authorized share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each and issued 100 shares, credited as fully paid.

The reorganization was not completed as at 31 December 2012, hence the share capital in the consolidated statements of financial position as at 31 December 2010, 2011 and 2012 represented the share capital of Red Kids Hong Kong.

In connection with the reorganization, the Company issued 999,900 shares on 17 June 2013. As at 30 June 2013, a total of 1,000,000 shares of HK\$0.01 each were issued.

22 Reserves**(a) Exchange reserve**

Exchange reserve comprises all foreign exchange differences arising from the translation of financial statements of operations outside mainland China which are dealt with in accordance with the accounting policies as set out in note 1(t).

(b) Statutory reserve

As stipulated by regulations in the PRC, the Company's subsidiary established and operated in the mainland China is required to appropriate 10% of their after-tax-profit (after offsetting prior year losses) as determined in accordance with the PRC accounting rules and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of profits to parent companies.

The statutory reserve can be utilized, upon approval by the relevant authorities, to offset accumulated losses or to increase capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

(c) Share-based payment reserve

Share-based payment reserve represents the fair value of services provided by parties other than employees to the Group in connection with the listing of the Company and the services were settled by equity instrument of the Company. The relevant services are recognized in accordance with IFRS 2, "Share-based payment".

(d) Distributable reserves

The Company was incorporated on 15 March 2013. Prior to the completion of the group reorganization and on the basis set out in note 1(b) of Section B above, the aggregate amount of distributable reserves as at 31 December 2010, 2011 and 2012 of the companies now comprising the Group were RMB33,707,000, RMB103,298,000 and RMB207,191,000, respectively.

After the completion of the group reorganization, the Company became the holding company of companies now comprising the Group. The aggregate amount of distributable reserves of the Company was RMB nil as at 30 June 2013.

(e) *Capital management*

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for its shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors capital with reference to its debt position. The Group's strategy was to maintain the equity and debt in a balanced position and ensure there were adequate working capital to service its debt obligations. The Group's debt to capital ratio, being the Group's total interest-bearing loans and borrowings over its total equity, at 31 December 2010, 2011 and 2012 and 30 June 2013 was 104%, 19% and 16% and 24% respectively.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

23 Financial risk management and fair value

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) *Credit risk*

The Group's credit risk is primarily attributable to trade and other receivables and deposits with banks. Management has a credit policy in place and the exposures to the credit risks are monitored on an ongoing basis.

(i) Trade and other receivables

For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, certain amounts of turnover and trade receivables are related to sales to related parties (see note 26(a) for further details). The management considers that related parties are under the control of the family members of the ultimate controlling party, Mr. Ding Peiji, hence no material credit risk exists on sales to related companies. In respect of sales to third party customers, credit evaluations are performed on customers requiring credit terms. These evaluations focus on the customer's history of making payments and current abilities to pay and take into account information specific to the customer as well as to the economic environment. Normally, the Group does not obtain collateral from customers. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 15.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and therefore significant concentrations of credit risk

primarily arise when the Group has significant exposure to individual customers. As at 31 December 2010, 2011 and 2012 and 30 June 2013, 1%, 6% and 21% and 18% of the total trade receivables were due from the Group's largest customer, and 11%, 23% and 52% and 48% of the total trade receivables were due from the Group's five largest customers respectively.

The maximum exposure to credit risk of the Group's financial assets is represented by the carrying amount of each financial asset in the consolidated statement of financial position. Except for the financial guarantees given by the Group as set out in note 25, the Group does not provide any other guarantees which would expose the Group to credit risk.

(ii) Deposits with banks

The Group mitigates its exposure to credit risk by placing deposits with financial institutions with established credit rating. Given the high credit ratings of the banks, management does not expect any counterparty to fail to meet its obligations.

(b) *Liquidity risk*

The board of directors of the Company is responsible for cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands. The Group's policy is to regularly monitor liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer terms.

All non-interest bearing financial liabilities of the Group are carried at amount not materially different from their contractual undiscounted cash flow as all the financial liabilities are with maturities within one year or repayable on demand at the end of respective reporting period.

The following tables show the remaining scheduled maturities at the end of respective reporting period of the Group's bank borrowings if the bank borrowings are to be repaid over the agreed repayment schedules, which are based on scheduled undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of reporting period):

	<u>Within 1 year or on demand</u>	<u>Total contractual undiscounted cash flow</u>	<u>Carrying amount</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Bank loans as at 31 December 2010	43,470	43,470	42,500
Bank loans as at 31 December 2011	23,407	23,407	22,400
Bank loans as at 31 December 2012	40,063	40,063	38,800
Bank loans as at 30 June 2013	71,940	71,940	68,590

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank loans. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profiles as monitored by management are set out below.

The following table details the interest rate profile of the Group's borrowings at the end of each reporting period:

	As at 31 December						As at 30 June	
	2010		2011		2012		2013	
	Effective interest rate	Amount	Effective interest rate	Amount	Effective interest rate	Amount	Effective interest rate	Amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fixed rate borrowings:								
Bank loans	6.903%	13,000	6.736%	22,400	7.325%	38,800	6.865%	68,590
Variable rate borrowings:								
Bank loans	6.258%	29,500	—	—	—	—	—	—
Total borrowings		<u>42,500</u>		<u>22,400</u>		<u>38,800</u>		<u>68,590</u>

(d) Foreign currency risk

Except for an insignificant amount of exports, the Group's businesses are principally conducted in RMB and most of the Group's monetary assets and liabilities are denominated in RMB. Accordingly, the management consider the Group's exposure to currency risk is insignificant.

(e) Fair value

All financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2010, 2011 and 2012 and 30 June 2013.

24 Commitments**(a) Capital commitments**

Capital commitments outstanding at 31 December 2010, 2011 and 2012 and 30 June 2013 not provided for in the financial statements were as follows:

	As at 31 December			As at
	2010	2011	2012	30 June
	RMB'000	RMB'000	RMB'000	2013
				RMB'000
Contracted for	—	—	—	<u>63,250</u>

(b) Operating leases commitments

At 31 December 2010, 2011 and 2012 and 30 June 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December			As at
	2010	2011	2012	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	14	90	741	556
After 1 year but within 5 years	—	133	1,482	1,111
	<u>14</u>	<u>223</u>	<u>2,223</u>	<u>1,667</u>

The Group leases properties under operating leases. The leases typically run for an initial period for one to three years, at the end of which period all terms are renegotiated. None of the leases includes contingent rentals.

25 Contingent liabilities

At 31 December 2010, 2011 and 2012 and 30 June 2013, Red Kids China provided guarantees in respect of bank loans made to related parties and third parties. The maximum liabilities of the Group at 31 December 2010, 2011 and 2012 and 30 June 2013 under these guarantees are as follows:

	As at 31 December			As at
	2010	2011	2012	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Guarantees for related parties	20,000	45,000	29,000	25,000
Guarantees for third parties	30,000	110,000	106,600	106,600
	<u>50,000</u>	<u>155,000</u>	<u>135,600</u>	<u>131,600</u>

The directors do not consider it probable that a claim will be made against the Group under these guarantees. No provision was therefore made by the Group at 31 December 2010, 2011 and 2012 and 30 June 2013. The guarantees at 30 June 2013 will be released upon the listing of the Company's shares on the Stock Exchange.

26 Material related party transactions

In addition to the related party information disclosed elsewhere in the Financial Information, the Group entered into the following material related party transactions:

<u>Name of party</u>	<u>Relationships</u>
Mr. Ding Peiji	Ultimate controlling party
Mr. Ding Peiyuan	Director and brother of Mr. Ding Peiji
Ms. Ding Lizhen	Director and sister of Mr. Ding Peiji
Ms. Ding Jiuzhi	Mother of Mr. Ding Peiji
Ms. Chen Mingmei	Daughter of Ms. Ding Lizhen
Red Kids (Fujian) Children Articles Co., Ltd.* ("Red Kids Fujian") (紅孩兒(福建)兒童用品有限公司)	Indirectly 100% owned by Mr. Ding Peiji
Fujian Hopeland Import and Export Trading Co., Ltd.* ("Fujian Hopeland") (福建宏潤進出口貿易有限公司)	60% and 40% owned by Mr. Ding Peiyuan and his father respectively
Shanghai Red Kids E-commerce Co., Ltd.* ("Red Kids E-commerce") (上海紅孩兒電子商務有限公司)	60% and 40% owned by Mr. Ding Peiyuan and his spouse respectively (ceased to be a related party since 25 July 2012 as their interests were sold to third parties)
Minghao (Xiamen) Children Articles Co., Ltd.* ("Minghao Xiamen") (銘濠(廈門)兒童用品有限公司)	80% owned by Mr. Ding Peijie, brother of Mr. Ding Peiji
Think Wise (Shanghai) Apparels Co., Ltd* ("Think Wise Shanghai") (華智(上海)服飾有限公司)	Indirectly 100% owned by Mr. Ding Peiji
Think Wise Holdings Investment Limited ("Think Wise") (華智控股投資有限公司)	100% owned by Mr. Ding Peiji

* The English translation of the company name is for reference only. The official names of these companies are in Chinese.

(a) Transactions with related parties

The Group entered into the following related party transactions during the Relevant Periods:

	<u>Year ended 31 December</u>			<u>Six months ended 30 June</u>	
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>	<u>2013</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Sales of products to					
— Red Kids E-commerce (prior to 25 July 2012) . . .	788	29,759	35,340	24,505	—
— Minghao Xiamen	19,959	17,301	17,061	7,092	10,919
— Think Wise Shanghai	—	—	5,198	5,198	—
	<u>20,747</u>	<u>47,060</u>	<u>57,599</u>	<u>36,795</u>	<u>10,919</u>

The amount of sales to Red Kids E-commerce amounted to RMB87,827,000 for the year ended 31 December 2012 (see also note 2). The average profit margin for sales of goods to Red Kids E-commerce ranged from 36% to 41% during the period from 1 January 2010 to 31 December 2012. The amounts presented in the table above represented amounts of sales to Red Kids E-commerce before its ownership changed.

The Group sold products to Minghao Xiamen with average profit margin from 38% to 41% during the Relevant Periods.

	Year ended 31 December			Six months ended 30 June	
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2012 RMB'000 (unaudited)	2013 RMB'000
Advances/repayments from related parties					
— Fujian Hopeland	69,640	74,674	25,163	21,300	1,000
— Think Wise	84,005	2,246	2	—	90,382
— Mr. Ding Peiji	—	8	22,417	—	36,429
— Ms. Ding Lizhen	1,240	—	—	—	—
— Ms. Ding Jiuzhi	12	39,700	—	—	—
— Ms. Chen Mingmei	6,520	30,380	—	—	—
	<u>161,417</u>	<u>147,008</u>	<u>47,582</u>	<u>21,300</u>	<u>127,811</u>
Advances/repayments to related parties					
— Fujian Hopeland	95,970	61,246	3,500	3,500	—
— Think Wise	31,907	29,553	317	317	—
— Mr. Ding Peiji	5,000	—	87,889	73,888	—
— Mr. Ding Peiyuan	6,000	—	24,000	24,000	—
— Ms. Ding Lizhen	1,240	—	99	99	—
— Ms. Ding Jiuzhi	12	39,700	—	—	—
— Ms. Chen Mingmei	6,520	30,380	—	—	—
	<u>146,649</u>	<u>160,879</u>	<u>115,805</u>	<u>101,804</u>	<u>—</u>

(b) Balances with related parties

At the end of each reporting period, the Group had the following balances with related parties:

(i) Due from related parties

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Trade-related				
Trade receivables				
— Red Kids E-commerce	919	7,396	—	—
— Minghao Xiamen	—	3,742	5,415	8,215
	<u>919</u>	<u>11,138</u>	<u>5,415</u>	<u>8,215</u>
Non trade-related				
Other receivables				
— Fujian Hopeland	36,091	22,663	1,000	—
— Mr. Ding Peiji	—	—	36,429	—
	<u>36,091</u>	<u>22,663</u>	<u>37,429</u>	<u>—</u>
	<u>37,010</u>	<u>33,801</u>	<u>42,844</u>	<u>8,215</u>

(ii) Due to related parties

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Trade-related				
Receipts in advance				
— Minghao Xiamen	1,606	—	—	—
Non-trade related				
Amount due to the ultimate controlling party				
— Mr. Ding Peiji	29,035	29,043	—	—
Amount due to related parties				
— Mr. Ding Peiyuan	24,000	24,000	—	—
— Ms. Ding Lizhen	99	99	—	—
— Think Wise	84,005	56,698	56,383	146,765
	<u>137,139</u>	<u>109,840</u>	<u>56,383</u>	<u>146,765</u>
	<u>138,745</u>	<u>109,840</u>	<u>56,383</u>	<u>146,765</u>

As at 31 December 2010, 2011 and 2012 and 30 June 2013, personal guarantee was given by Mr. Ding Peiji in respect of bank loans to the Group of RMB25,000,000, nil and RMB31,900,000 and RMB63,790,000 respectively.

As at 31 December 2010, 2011 and 2012, Red Kids Fujian's certain banking facilities were secured by mortgages over the Group's buildings and lease prepayments with an aggregate carrying amount of RMB14,206,000, nil and RMB12,400,000 respectively. The mortgages were released during the six months ended 30 June 2013.

The directors of the Company confirm that the amount due to Think Wise will be waived prior to the listing of the Company's shares on the Stock Exchange.

(c) **Key management personnel compensation**

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 6 and certain of the highest paid employees as disclosed in note 7, is as follows:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Short-term employee benefits	1,218	1,738	2,164	927	1,480
Contributions to defined contribution retirement plans	23	24	29	14	16
Total	<u>1,241</u>	<u>1,762</u>	<u>2,193</u>	<u>941</u>	<u>1,496</u>

Total remuneration is included in "staff costs" (note 4(b)).

27 **Significant accounting estimates and judgments**

Estimates and judgments are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the Financial Information. The principal accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgments and estimates used in the preparation of the Financial Information.

(a) **Net realizable value of inventories**

Net realizable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the experience of selling products with similar nature. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down made in prior periods and affect the Group's net assets value. The Group reassesses these estimates at the end of each reporting period.

(b) **Impairment of trade and other receivables**

The Group estimates the impairment allowances for trade and other receivables by assessing the recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgments. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the

carrying amounts of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. The Group reassesses the impairment allowances at the end of each reporting period.

28 List of auditors of the subsidiaries

The following list contains details of the companies included in the Financial Information that are subject to audit during the Relevant Periods and the names of the respective auditors.

<u>Name of company</u>	<u>Financial period</u>	<u>Statutory auditors</u>
Red Kids China	For the years ended 31 December 2010 and 2011	Quanzhou Fengze Minghua United Certified Public Accountants* ("泉州豐澤明華聯合會計師事務所")
	For the year ended 31 December 2012	Quanzhou Fengze Quanxin Link Certified Public Accountants * ("泉州豐澤泉信聯合會計師事務所")
Red Kids Hong Kong	For the years ended 31 December 2010, 2011 and 2012	Yiu Kam Man & Co. Certified Public Accountants ("姚金文會計師事務所")

* The English translation of the entity name is for reference only. The official names of these entities are in Chinese.

29 Immediate and ultimate controlling parties

As at 30 June 2013, the directors consider the immediate and ultimate controlling parties to be Think Wise Holdings Investment Limited and Mr. Ding Peiji respectively.

30 Possible impact of amendments, new standards and interpretations issued but not yet effective for the Relevant Periods

Up to the date of issue of this Financial Information, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the Relevant Period and which have not been adopted in this Financial Information. These include the following which may be relevant to the Group.

	<u>Effective for accounting periods beginning on or after</u>
Amendments to IAS 32, <i>Financial instruments: Presentation</i> — <i>offsetting financial assets and financial liabilities</i>	1 January 2014
Amendments to IFRS 10, <i>Consolidated financial statements</i> , IFRS 12, <i>Disclosure of interests in other entities</i> and IAS 27 <i>Separate financial statements</i> — <i>Investment entities</i>	1 January 2014
Amendments to IAS 36, <i>Impairment of assets</i> — <i>Recoverable amount disclosures for non- financial assets</i>	1 January 2014
IFRIC 21, <i>Levies</i>	1 January 2014
IFRS 9, <i>Financial instruments</i>	1 January 2015

The Group has made an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

C Subsequent financial statements and dividends

No audited financial statements have been prepared by the Company or its subsidiaries comprising the Group in respect of any period subsequent to 30 June 2013. No dividend or distribution has been declared or made by any companies comprising the Group in respect of any period subsequent to 30 June 2013.

Yours faithfully

KPMG
Certified Public Accountants
Hong Kong

The information set forth in this appendix does not form part of the Accountants' Report from KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the "Accountants' Report" set forth in Appendix I to this prospectus.

(A) UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Company is prepared in accordance with Rule 4.29 of the Listing Rules and is set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets of the Company as at 30 June 2013 as if the Global Offering had taken place on that date.

The unaudited pro forma adjusted consolidated net tangible assets of the Company has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Company as at 30 June 2013 or at any future dates following the Global Offering. It is prepared based on the consolidated net tangible assets of the Company as at 30 June 2013 as set out in the Accountants' Report set out in Appendix I to this prospectus, and adjusted as described below.

	Consolidated net tangible assets of the Company as at 30 June 2013 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted consolidated net tangible assets of the Company	Unaudited pro forma adjusted consolidated net tangible assets of the Company per Share ⁽³⁾	
	RMB'000	RMB'000	RMB'000	RMB	HK\$ ⁽⁴⁾
Based on the Offer Price of					
HK\$1.60 per Share	282,117	168,484	450,601	0.56	0.71
Based on the Offer Price of					
HK\$2.32 per Share	282,117	256,669	538,786	0.67	0.85

Notes:

- (1) The consolidated net tangible assets of the Company as of 30 June 2013 was calculated based on the consolidated net assets of the Company as of 30 June 2013 of approximately RMB282,164,000 as extracted from the Accountants' Report set out in Appendix I to this Prospectus, with adjustments for the intangible assets of approximately RMB47,000.
- (2) The estimated net proceeds from the Global Offering are based on 160,000,000 Shares at the Offer Price of HK\$1.60 and of HK\$2.32 per Share, after deduction of the underwriting fees and other related expenses payable by the Company. No account has been taken of the Shares which may be allotted and issued upon the exercise of the Over-allotment Option or the options granted under the Pre-IPO Share Option Scheme or any options that may be granted under the Share Option Scheme, or any Shares which may be repurchased by the Company pursuant to the Repurchase Mandate. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into Renminbi at an exchange rate of RMB0.78923 to HK\$1.00, which was the rate prevailing on 20 December 2013 as set by PBOC. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at all.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after making the adjustments referred to in the preceding paragraph and on the basis that a total of 800,000,000 Shares were in issue assuming that the Global Offering had been completed on 30 June 2013. It does not take into account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or the options granted under the Pre-IPO Share Option Scheme or any options that may be granted under the Share Option Scheme, or any Shares which may be repurchased by the Company pursuant to the Repurchase Mandate.
- (4) The unaudited pro forma adjusted consolidated net tangible assets of the Company per Share is converted from Renminbi into Hong Kong dollars at the rate of RMB0.78923 to HK\$1.00, which was the rate prevailing on 20 December 2013 as set by PBOC. No representation is made that the Renminbi amounts have been, could have been or could be converted to Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.
- (5) No adjustment has been made to the consolidated net tangible assets of the Company as at 30 June 2013 to reflect any trading result or other transaction of the Group entered into subsequent to 30 June 2013.

(B) UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following unaudited pro forma forecast earnings per share for the year ending 31 December 2013 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering and the Capitalization Issue as if they had taken place on 1 January 2013. This unaudited pro forma forecast earnings per share had been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial results of the Company for the year ending 31 December 2013 or for any future period.

Forecast consolidated profit of the Company for the year ending 31 December 2013 ⁽¹⁾⁽³⁾	Not less than RMB124.2 million (approximately HK\$157.4 million)
Unaudited pro forma forecast earnings per share for the year ending 31 December 2013 ⁽²⁾⁽³⁾	Not less than RMB0.16 (approximately HK\$0.20)

Notes:

- (1) The bases and assumptions on which the above profit forecast has been prepared are summarized in Appendix III to this Prospectus. The Directors have prepared the forecast consolidated profit of the Company for the year ending 31 December 2013 based on the audited consolidated results for the six months ended 30 June 2013, the unaudited management accounts of our Group for the four months ended 31 October 2013 and the forecast consolidated results for the remaining two months ending 31 December 2013.
- (2) The calculation of the unaudited pro forma forecast earnings per share is based on the forecast consolidated results for the year ending 31 December 2013 of the Company, assuming that a total of 800,000,000 shares had been in issued during the entire year. The calculation of the forecast earnings per share does not take into account any shares which may be issued upon the exercise of the Over-allotment Option, any options granted under the Pre-IPO Share Option Scheme or options that may be granted under the Share Option Scheme.
- (3) The forecast consolidated profit of the Company and the unaudited pro forma forecast earnings per share for the year ending 31 December 2013 are converted into Hong Kong Dollars at the exchange rate of RMB0.78923 to HK\$1.00, the PBOC rate on 20 December 2013.

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose of inclusion in this prospectus.



INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF MIKO INTERNATIONAL HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of Miko International Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets as at 30 June 2013 and the unaudited pro forma forecast earnings per share for the year ending 31 December 2013 and related notes as set out in Part A and B of Appendix II to the prospectus dated 31 December 2013 (the "Prospectus") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A and B of Appendix II to the Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed offering of the ordinary shares of the Company (the "Global Offering") on the Group's financial position as at 30 June 2013 and the forecast financial performance of the Company for the year ending 31 December 2013 as if the Global Offering had taken place at 30 June 2013 and 1 January 2013, respectively. As part of this process, information about the Group's financial position as at 30 June 2013 has been extracted by the Directors from the Group's historical financial statements included in the Accountants' Report as set out in Appendix I to the Prospectus. Information about the Group's forecast of the consolidated profit of the Company for the year ending 31 December 2013 (the "Profit Forecast") has been extracted by the Directors from the section headed "Financial Information" in the Prospectus on which an accountants' report has been published as set out in Appendix III to the Prospectus.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements (“HKSAE”) 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical or forecast financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of events or transactions as at 30 June 2013 or 1 January 2013 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants’ judgement, having regard to the reporting accountants’ understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our procedures on the pro forma financial information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America, auditing standards of the Public Company Accounting Oversight Board (United States) or any overseas standards and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described in the section headed "Use of Proceeds" in the Prospectus.

Opinion

In our opinion:

- a) the pro forma financial information has been properly compiled on the basis stated;
- b) such basis is consistent with the accounting policies of the Group, and
- c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

31 December 2013

The forecast of the consolidated profit of our Group for the year ending December 31, 2013 is set out in the paragraph headed “Profit forecast” in the section headed “Financial information” in this prospectus.

(1) Basis and assumptions

The forecast of the consolidated profit of our Group for the year ending December 31, 2013 prepared by the Directors is based on the audited accounts of our Group for the six months ended June 30, 2013, the unaudited management accounts of our Group for the four months ended October 31, 2013 and a forecast of the consolidated results of our Group for the remaining two months ending December 31, 2013. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ending December 31, 2013. The forecast has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by our Group as summarized in the accountants’ report, the text of which is set out in Appendix I to this prospectus and is based on the following principal assumptions:

- (a) there will be no material changes in existing government policies or political, legal (including changes in legislation or regulations or rules), fiscal or economic conditions in Hong Kong, the PRC or any other places in which any member of our Group is incorporated, carries on business;
- (b) there will be no material changes in the bases or rates of taxation or duties applicable to the activities of our Group in Hong Kong, in the PRC, or any other place in which our Group operates or in which any member of our Group is incorporated; and
- (c) there will be no material and adverse changes in the foreign currency exchange rates and interest rates from those currently prevailing.

(2) Letters

Set out below are texts of letters received by the Directors from (i) KPMG, the auditors and reporting accountants of our Company, and (ii) the Joint Sponsors prepared for the purpose of incorporation in this prospectus in connection with the profit forecast of our Group for the year ending December 31, 2013.

(i) Letter from KPMG

The following is the text of a letter received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's profit forecast for the purpose of inclusion in this prospectus.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

31 December 2013

The Directors
Miko International Holdings Limited

CCB International Capital Limited
China Galaxy International Securities (Hong Kong) Co., Limited

Dear Sirs

We have reviewed, in accordance with the Auditing Guideline 3.341 "Accountants' report on profit forecasts" issued by the Hong Kong Institute of Certified Public Accountants, the accounting policies adopted and calculations made in arriving at the forecast of the consolidated profit of Miko International Holdings Limited (the "Company") for the year ending 31 December 2013 (the "Profit Forecast"), for which the directors of the Company are solely responsible, as set forth in the section headed "Financial Information" in the prospectus of the Company dated 31 December 2013 (the "Prospectus").

The Profit Forecast has been prepared by the directors of the Company based on the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2013, the unaudited management accounts of the Group for the four months ended 31 October 2013 and a forecast of the consolidated results of the Group for the remaining two months ending 31 December 2013.

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Forecast has been properly compiled in accordance with the assumptions made by the directors as set out in Appendix III Profit Forecast of the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report dated 31 December 2013, the text of which is set out in Appendix I of the Prospectus.

Yours faithfully

KPMG
Certified Public Accountants
Hong Kong

(ii) *Letters from the Joint Sponsors*



December 31, 2013

The Directors
Miko International Holdings Limited

Dear Sirs,

We refer to the forecast of the consolidated profit attributable to equity shareholders of Miko International Holdings Limited (the “**Company**”, together with its subsidiaries hereinafter collectively referred to as the “**Group**”) for the year ended December 31, 2013 (the “**Profit Forecast**”) as set out in the prospectus issued by the Company dated December 31, 2013 (the “**Prospectus**”).

The Profit Forecast, for which the Directors of the Company are solely responsible, has been prepared by them based on the audited consolidated results of the Group for the six months ended June 30, 2013, the unaudited management accounts of the Group for the four months ended October 31, 2013 and a forecast of the consolidated results of the Group for the remaining two months ending December 31, 2013.

We have discussed with you the bases and assumptions made by the Directors of the Company as set out in Appendix III to the Prospectus upon which the Profit Forecast has been made. We have also considered the letter dated December 31, 2013 addressed to yourselves and ourselves from KPMG regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the information comprising the Profit Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by KPMG, we are of the opinion that the Profit Forecast, for which you as Directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,

For and on behalf of
CCB International Capital Limited
Lai Voon Wai
Managing Director — Corporate Finance

Yours faithfully,

For and on behalf of
China Galaxy International Securities (Hong Kong) Co., Limited
Chiu Pat Ngao Steven
Managing Director — Investment Banking

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on March 15, 2013 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on December 27, 2013. The following is a summary of certain provisions of the Articles:

(a) Directors

- (i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles)

and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries.

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit,

including the exercise thereof in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability

benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any

such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which

notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorized by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarized financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarized financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;

- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognize any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may

reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realized or unrealized, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could

exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or installment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarized in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of

the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not

apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorized by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorizing civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from March 27, 2013.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

(n) Winding up

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such

office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorized by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the

prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman (Cayman) Limited, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarizing certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on March 15, 2013. Our Company has been registered as a non-Hong Kong company under Part XI of the Companies Ordinance on November 13, 2013 and our Company's principal place of business in Hong Kong is at Room 1601, Ho King Commercial Centre 2-16 Fa Yuen Street Mong Kok, Kowloon Hong Kong. Mr. Ng Cheuk Him of Flat E, 2/F., Leung Chau Building, 78 Un Chau Street, Sham Shui Po, Kowloon, Hong Kong, has been appointed as the authorized representative of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the relevant law of the Cayman Islands and its constitution which comprises a memorandum of association and the articles of association. A summary of the relevant aspects of the Companies Law and certain provisions of the Articles of Association is set out in Appendix IV of this prospectus.

2. Changes in share capital of our Company

As at the date of the incorporation of our Company, its authorized share capital was HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. The following sets out the changes in the share capital of our Company since the date of its incorporation:

- (a) On March 15, 2013, our Company (i) allotted and issued one Share to the initial subscriber, Codan Trust Company (Cayman) Limited at par value which was transferred to Think Wise on the same day; (ii) allotted and issued 99 Shares at par value to Think Wise.
- (b) On April 16, 2013, our Company allotted and issued 9,050 Shares to Think Wise at par value, in consideration of Think Wise's transfer of all the issued share capital in Red Kids HK to Obvious Cheer.
- (c) On April 17, 2013, our Company allotted and issued 350 Shares, 350 Shares and 150 Shares to SHKSF, Vantage Assets and Benhui, respectively, in consideration of Mr. Ding's acquisition of 8.5% interest in the issued share capital of Think Wise held by SHKSF, Vantage Assets and Benhui in aggregate.
- (d) On June 17, 2013, Think Wise transferred 165 Shares and 105 Shares in our Company at par value to SHKSF and Vantage Assets, respectively. Please refer to the section headed "History and Corporate Structure — Corporate Reorganization" for further details of such transfers.
- (e) On June 17, 2013, our Company allotted and issued 556,120, 50,985, 45,045, 14,850, 66,000, 66,000, 66,000, 65,000 and 60,000 Shares at par value to Think Wise, SHKSF, Vantage Assets, Benhui, Opulent Ample, Snowy Wise, Rightful Style, Splendid First and Wind Dove, respectively.
- (f) On December 27, 2013, our Shareholders resolved to increase the authorized share capital of our Company from HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each to HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.01.

Immediately following completion of the Capitalization Issue and the Global Offering and without taking into account Shares to be issued upon exercise of the Over-allotment Option, and any options granted under the Pre-IPO Share Option Scheme and to be granted under the Share Option Scheme, the authorized share capital of our Company will be HK\$100,000,000 divided into 10,000,000,000 Shares, of which 800,000,000 Shares will be issued as fully paid, and 9,200,000,000 Shares will remain unissued. Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed “4. Written resolutions of our Shareholders passed on December 27, 2013” in this Appendix, our Directors do not have any present intention to issue any of the authorized but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed herein, or in the section headed “History and Corporate Structure” of this prospectus, there has been no alteration in the share capital of our Company since its incorporation.

3. Changes in share capital of our subsidiaries

The following alterations in the share capital or registered capital of our subsidiaries took place within the two years immediately preceding the date of this prospectus:

Obvious Cheer

On January 2, 2013, Obvious Cheer, a direct wholly-owned subsidiary of our Company, was incorporated as a limited liability company in the BVI.

On March 22, 2013, one share in Obvious Cheer was allotted and issued, credited as fully paid, to our Company at par value of US\$1.00.

Red Kids HK

On April 16, 2013, Think Wise transferred all the issued share capital in Red Kids HK to Obvious Cheer, in consideration of our Company’s allotment and issuance of 9,050 Shares to Think Wise.

Red Kids China

On March 21, 2013, the board of Red Kids China resolved to increase its registered capital from HK\$70 million to HK\$140 million. According to a capital verification report issued by an independent third party auditor, as of April 26, 2013, 100% of the increased registered capital of Red Kids China has been paid up.

On July 15, 2013, the board of Red Kids China further resolved to increase its registered capital from HK\$140 million to HK\$160 million. According to a capital verification report issued by an independent third party auditor, as of August 2, 2013, 100% of the increased registered capital of Red Kids China has been paid up.

Miko Shanghai

On June 24, 2013, Miko Shanghai was established under the laws of the PRC with a registered capital of HK\$20 million. According to a capital verification report issued by an independent third party auditor, as of July 15, 2013, 100% of the registered capital of Miko Shanghai has been paid up.

Save as set out above, there has been no alteration in the share capital of any of our subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

4. Written resolutions of our Shareholders passed on December 27, 2013

Pursuant to the written resolutions of all Shareholders entitled to vote at general meetings of our Company, which were passed on December 27, 2013:

- (a) the authorized share capital of our Company be increased from HK\$380,000 divided into 38,000,000 of HK\$0.01 each to HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.01 each, all of which shall rank *pari passu* in all respects with existing Shares in issue as at the date of such resolutions;
- (b) subject to the share premium account of our Company being credited as a result of the Global Offering, our Directors are authorized to allot and issue a total of 639,000,000 Shares and apply it towards paying up in full at par to the Shareholders whose names appear on the register of members of our Company at the close of business on December 27, 2013 (or as they may direct) in proportion (as nearly as possible without involving fractions) to their respective existing shareholdings by way of capitalization of the sum of HK\$6,390,000 standing to the credit of the share premium account of our Company and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares;
- (c) conditional upon (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, on the Main Board, our Shares in issue and to be issued (pursuant to the Capitalization Issue, the Global Offering, the Over-allotment Option, the Pre-IPO Share Option Scheme and the Share Option Scheme) as mentioned in this prospectus; and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s)) and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise:
 - (i) the Global Offering and the Over-allotment Option were approved and our Directors were authorized to allot and issue the Offer Shares and the Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option on and subject to the terms and conditions stated in this prospectus and in the relevant application forms;
 - (ii) the rules of the Pre-IPO Share Option Scheme were approved and adopted and our Directors were authorized to take all such actions as they consider necessary and/or desirable to implement and give effect to the Pre-IPO Share Option Scheme and to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted thereunder;
 - (iii) the rules of the Share Option Scheme were approved and adopted, and our Directors or any committee thereof established by the Board were authorized, at their sole discretion, to: (i) administer the Share Option Scheme; (ii) modify/amend the Share Option Scheme from time to time as requested by the Stock

Exchange; (iii) grant options to subscribe for Shares under the Share Option Scheme up to the limits referred to in the Share Option Scheme; (iv) allot, issue and deal with Shares pursuant to the exercise of any option which may be granted under the Share Option Scheme; (v) make application at the appropriate time or times to the Stock Exchange for the listing of, and permission to deal in, any Shares or any part thereof that may hereafter from time to time be issued and allotted pursuant to the exercise of the options granted under the Share Option Scheme; and (vi) take all such actions as they consider necessary, desirable or expedient to implement or give effect to the Share Option Scheme;

- (d) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than by way of Rights Issue, or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or pursuant to the issue of Shares upon the exercise of any subscription rights attached to any warrants of our Company or pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme and which may be granted under the Share Option Scheme or any other option scheme(s) or similar arrangement for the time being adopted for the grant or issue to directors and/or officers and/or employees of our Group or rights to acquire Shares or pursuant to a specific authority granted by the Shareholders in general meeting, the Shares with an aggregate nominal amount not exceeding 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Capitalization Issue and the Global Offering but before any exercise of the Over-allotment Option, any options granted under the Pre-IPO Share Option Scheme and any options which may be granted under the Share Option Scheme;

For the purpose of this paragraph, “Rights Issue” means an offer of shares in our Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by our Directors to holders of shares in our Company on the register on a fixed record date in proportion to their holdings of shares (subject to such exclusion or other arrangements as our Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to our Company, or any recognized regulatory body or any stock exchange applicable to our Company);

- (e) a general unconditional mandate was given to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, such number of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Capitalization Issue and the Global Offering but without taking into account any Shares to be issued upon exercise of the Over-allotment Option, any options granted under the Pre-IPO Share Option Scheme and any options which may be granted under the Share Option Scheme;

- (f) the extension of the general mandate to allot, issue and deal with Shares as mentioned in paragraph (d) above by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to paragraph (e) above, provided that such extended amount shall not exceed 10% of the aggregate of the total nominal value of the share capital of our Company in issue immediately following completion of the Capitalization Issue and the Global Offering but without taking into account any Shares to be issued upon exercise of the Over-allotment Option, any options granted under the Pre-IPO Share Option Scheme and any options which may be granted under the Share Option Scheme, be and is approved; and
- (g) the Articles of Association will be conditionally adopted.

Each of the general mandates referred to in paragraphs (d), (e) and (f) above will remain in effect until whichever is the earliest of:

- (1) the conclusion of our next annual general meeting, unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;
- (2) the expiration of the period within which our Company is required by any applicable law or the Articles of Association to hold our next annual general meeting; or
- (3) the time when such mandate is varied or revoked by an ordinary resolution of our Shareholders in a general meeting.

5. Repurchase of our Shares

This section includes information relating to the repurchases of securities, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important restrictions are summarized below:

(i) *Shareholders' approval*

All proposed repurchases of Shares must be approved in advance by an ordinary resolution of the Shareholders in a general meeting, either by way of general mandate or by specific approval in relation to a particular transaction.

Pursuant to the written resolutions passed on December 27, 2013 by all our Shareholders, a general unconditional mandate (the "Repurchase Mandate") was given to our Directors to exercise all powers of our Company to repurchase Shares (Shares which may be listed on the Stock Exchange) with a total nominal value of not more than 10% of the aggregate nominal value of our share capital in issue or to be issued immediately following completion of the Global Offering, further details of which have been described above in the paragraph

headed “4. Written resolutions of our Shareholders passed on December 27, 2013” in this Appendix.

(ii) *Source of funds*

Any repurchases of Shares by us must be paid out of funds legally available for the purpose in accordance with our Articles of Association, the Listing Rules and the Companies Law. We are not permitted to repurchase our Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(iii) *Shares to be repurchased*

The Listing Rules provide that the Shares which are proposed to be repurchased by us must be fully-paid up.

(b) *Reasons for repurchases*

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have general authority from the Shareholders to enable them to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made when the Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) *Funding of repurchases*

In repurchasing Shares, we may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of our Company’s current financial position as disclosed in this prospectus and taking into account its current working capital position, our Directors consider that, if the Repurchase Mandate is exercised in full, it might have a material adverse effect on our working capital and/or gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(d) *General*

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the Listing Rules) currently intends to sell any Shares to us.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws and regulations of the Cayman Islands. If, as a result of any repurchase of Shares, a shareholder’s proportionate interest in the voting rights is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the “Takeovers Code”). Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate

control of us and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

We have not made any repurchases of our own securities in the past six months.

No connected person has notified us that he/she has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. CORPORATE REORGANIZATION

In order to streamline the corporate structure and rationalize our corporate structure for the Listing, our Group underwent the Corporate Reorganization. Please see the sub-section headed “History and Corporate Structure — Corporate Reorganization” in this prospectus for details.

C. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of the material contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Group within the two years preceding the date of this prospectus and are or may be material:


















- (a) A share swap agreement dated April 16, 2013 entered into among Obvious Cheer, Think Wise and our Company, pursuant to which Obvious Cheer acquired the entire issued share capital of Red Kids HK from Think Wise in consideration of Obvious Cheer procuring our Company to allot and issue 9,050 Shares, credited as fully paid, to Think Wise;
- (b) A share swap agreement dated April 17, 2013 entered into among Mr. Ding, Benhui and our Company, pursuant to which Mr. Ding acquired 150 shares of Think Wise from Benhui in consideration of Mr. Ding procuring our Company to allot and issue 150 Shares, credited as fully paid, to Benhui;
- (c) A share swap agreement dated April 17, 2013 entered into among Mr. Ding, SHKSF and our Company, pursuant to which Mr. Ding acquired 350 shares of Think Wise from SHKSF in consideration of Mr. Ding procuring our Company to allot and issue 350 Shares, credited as fully paid, to SHKSF;
- (d) A share swap agreement dated April 17, 2013 entered into among Mr. Ding, Vantage Assets and our Company, pursuant to which Mr. Ding acquired 350 shares of Think Wise from Vantage Assets in consideration of Mr. Ding procuring our Company to allot and issue 350 Shares, credited as fully paid, to Vantage Assets;
- (e) An investment agreement dated April 17, 2013 entered into among Think Wise, Chance Talent, Mr. Ding and our Company, pursuant to which Chance Talent agreed to subscribe for the Exchangeable Notes to be issued by Think Wise;
- (f) A property pre-purchase agreement dated June 3, 2013 entered into between Red Kids China and Shanghai Fashitu Investment Group Limited (上海法詩圖投資集團有限公司, “Shanghai Fashitu”), pursuant to which Red Kids China agreed to acquire from Shanghai Fashitu certain property under construction for a consideration of RMB115,000,000;






- (g) the Deed of Non-competition;
- (h) the Deed of Indemnity; and
- (i) the Hong Kong Underwriting Agreement.

2. Intellectual property rights of our Group




Trademarks

As at the Latest Practicable Date, we have registered 38 trademarks in the PRC and the following trademarks are, in the opinion of our Directors, material to our business.













No.	Trademark	Place of registration	Class	Registration number	Expiry date
1		PRC	40	9050420	April 20, 2022
2		PRC	25	10841251	August 6, 2023
3		PRC	35	10847084	August 6, 2023
4		PRC	25	10841269	August 6, 2023
5		PRC	18	10847020	August 6, 2023
6		PRC	16	10847064	August 6, 2023
7		PRC	3	7601284	April 13, 2021
8		PRC	5	7601305	September 20, 2021
9		PRC	9	7601323	March 27, 2022
10		PRC	10	7601343	December 27, 2021
11		PRC	16	7601358	December 27, 2020
12		PRC	18	7601370	November 20, 2020
13		PRC	25	7604095	March 6, 2021
14		PRC	35	3129783	July 13, 2013
15		PRC	25	7604147	January 6, 2021
16		PRC	28	7604184	November 20, 2020
17		PRC	35	7604203	April 13, 2021

No.	Trademark	Place of registration	Class	Registration number	Expiry date
18		PRC	41	7604217	December 27, 2020
19		PRC	25	7604121	November 13, 2020
20		PRC	25	3952622	September 27, 2017
21		PRC	25	3952621	September 27, 2017
22		PRC	25	3952620	September 27, 2017

As at the Latest Practicable Date, we have registered below 3 trademarks in countries and regions outside the PRC:

No.	Trademark	Place of registration	Class	Registration number	Expiry date
1	 REDKIDS	Taiwan	025	01579107	May 16, 2023
2	 REDKIDS	Hong Kong	25	302237049	April 27, 2022
3	 redkids 红孩儿	Hong Kong	18,25,35	302442087	November 20, 2022

As at the Latest Practicable Date, 13 applications have been made for the registration of trademarks and the following trademark applications are, in the opinion of our Directors, material to our business:

No.	Trademark	Place of Application	Class	Application number	Application date
1	 REDKIDS	PRC	9	9047340	January 11, 2011
2	 REDKIDS	PRC	14	9047377	January 11, 2011
3	 REDKIDS	PRC	16	9047453	January 11, 2011
4	 REDKIDS	PRC	18	9047496	January 11, 2011
5	 REDKIDS	PRC	24	9047530	January 11, 2011
6	 REDKIDS	PRC	25	9050291	January 11, 2011
7	 REDKIDS	PRC	28	9050328	January 11, 2011
8	 REDKIDS	PRC	35	9050382	January 13, 2011
9	 redkids 红孩儿	PRC	25	10841119	April 27, 2012
10	 redkids 红孩儿	PRC	25	10841192	April 27, 2012
11	 redkids 红孩儿	PRC	18	10841317	April 27, 2012
12	 redkids 红孩儿	PRC	16	10842662	April 27, 2012
13	 REDKIDS	PRC	28	10842733	April 27, 2012

Domain Names

As at the Latest Practicable Date, we have registered the following domain names:

<u>Registrant</u>	<u>Domain Name</u>	<u>Date of Registration</u>	<u>Expiration Date</u>
Red Kids China	Redkids.cn	May 16, 2003	May 16, 2015

3. Further information about our PRC establishments

Red Kids China

- | | |
|---|---|
| (i) nature of the company: | wholly foreign-owned enterprise |
| (ii) term of business operation: | from January 20, 2000 to January 20, 2020 |
| (iii) total investment: | HK\$220 million |
| (iv) registered capital: | HK\$160 million (fully paid) |
| (v) attributable interest of our Company: | 100% |
| (vi) scope of business: | Manufacturing and wholesale of apparel, footwear and hats, socks, bags and cases and stationary |

Miko Shanghai

- | | |
|---|---|
| (i) nature of the company: | wholly foreign-owned enterprise |
| (ii) term of business operation: | from June 24, 2013 to June 23, 2023 |
| (iii) total investment: | HK\$30.0 million |
| (iv) registered capital: | HK\$20.0 million (fully paid) |
| (v) attributable interest of our Company: | 100% |
| (vi) scope of business: | Designing of apparels and accessories; wholesale, online retail, commission agency (excluding auction), and import and export of apparels, accessories and children's products, and related supporting business activities; computer software development, sale of self-produced products (all above products are the products unrelated to government trades; for those products subject to quota and license management, such quota and license shall be applied for according to relevant national rules and regulations; for those products subject to administrative license, such license shall be obtained). |

D. FURTHER INFORMATION ABOUT THE DIRECTORS

1. Directors' service contracts and appointment letters

Each of our executive Directors has entered into a service contract with us for an initial fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

Each of our independent non-executive Directors has entered into an appointment letter with us for an initial fixed term of three years commencing from the Listing Date.

Each of our executive Directors and independent non-executive Directors is entitled to the respective basic salary set out below. A Director may not vote on any Board resolution regarding the determination of Director's fees or the amount of any discretionary bonus payable to him.

The current basic annual Director's fees of our Directors are as follows:

	RMB'000
Mr. Ding Peiji	100
Mr. Ding Peiyuan	100
Ms. Ding Lizhen	100
Mr. Gu Jishi	100
	HK\$'000
Mr. Leung Wai Yip	180
Mr. Mei Wenjue	180
Mr. Zhu Wenxin	180

Save as aforesaid, none of our Directors has or is proposed to have a service contract with us or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

2. Directors' remuneration during the Track Record Period

For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, the aggregate of the remuneration paid and benefits in kind granted to our Directors by our Group was RMB1.0 million, RMB1.5 million, RMB1.6 million and RMB1.2 million, respectively.

Save as disclosed in this prospectus, no other emoluments have been paid or are payable, in respect of the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 by us to our Directors.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary bonus and share-based payment compensation granted under the pre-IPO Share Option Scheme) for the year ending December 31, 2013 will be approximately RMB2.6 million.

E. DISCLOSURE OF INTERESTS

1. Disclosure of interests

- (a) *Interests and short positions of our Directors in our share capital and our associated corporations following the Capitalization Issue and the Global Offering*

Immediately following completion of the Capitalization Issue and the Global Offering and taking no account of any Shares which may be allotted and issued upon exercise of the Over-allotment Option, options granted under the Pre-IPO Share Option Scheme and options to be granted under the Share Option Scheme, the interests or short

positions of the Directors and the chief executive in the shares, underlying shares and debentures of our Company and our associated corporations, within the meaning of Part XV of the SFO which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

Interests and short positions in the shares, underlying shares and debentures of our Company and our associated corporations:

<u>Name of Director</u>	<u>Nature of interest</u>	<u>Capacity</u>	<u>Number of Shares</u>	<u>Approximate percentage of interest in our Company⁽⁶⁾</u>
Mr. Ding ⁽¹⁾	L ⁽⁴⁾	Interest in a controlled corporation	262,684,813 - 318,077,318	32.84 - 39.76%
Ms. Ding Lizhen ⁽²⁾	L ⁽⁴⁾	Interest in a controlled corporation	42,240,000	5.28%
		Beneficial owner	800,000 ⁽⁵⁾	0.10%
Mr. Ding Peiyuan ⁽³⁾	L ⁽⁴⁾	Interest in a controlled corporation	42,240,000	5.28%
		Beneficial owner	800,000 ⁽⁵⁾	0.10%
Mr. Gu Jishi	L ⁽⁴⁾	Beneficial owner	800,000 ⁽⁵⁾	0.10%

Note:

- (1) *Think Wise is wholly-owned and controlled by Mr. Ding, an executive Director. Accordingly, Mr. Ding is deemed to be interested in all the Shares in which Think Wise is interested pursuant to the SFO.*

The number of Shares to be transferred to Chance Talent upon exercise by Chance Talent of the exchange rights under the Exchangeable Notes will vary pursuant to the terms of the Exchangeable Notes. For illustration purpose only, adopting the mid-point of the indicative Offer Price range of HK\$1.96 per Share, Think Wise's interest in our Company upon the Listing will range from approximately 32.84% to approximately 39.76% upon the Listing.

- (2) *Snowy Wise is wholly-owned and controlled by Ms. Ding Lizhen, an executive Director. Accordingly, Ms. Ding Lizhen is deemed to be interested in all the Shares in which Snowy Wise is interested pursuant to the SFO.*

- (3) *Rightful Style is wholly-owned and controlled by Mr. Ding Peiyuan, an executive Director. Accordingly, Mr. Ding Peiyuan is deemed to be interested in all the Shares in which Rightful Style is interested pursuant to the SFO.*

- (4) *The letter "L" denotes long position.*

- (5) *Each of Ms. Ding Lizhen, Mr. Ding Peiyuan and Mr. Gu Jishi, an executive Director, has been granted an option to subscribe for 800,000 Shares under the Pre-IPO Share Option Scheme.*

- (6) *On the basis that the Listing will be completed on or before October 31, 2014, without taking into account of any Shares to be issued upon exercise of the Over-allotment Option, options granted under the Pre-IPO Share Option Scheme or options which may be granted under the Share Option Scheme.*

- (b) *Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO*

Immediately following completion of the Capitalization Issue and the Global Offering and taking into no account of any shares which may be allotted and issued upon exercise of the Over-allotment Option, options granted under the Pre-IPO Share Option Scheme and options to be granted under the Share Option Scheme, in addition to the interests disclosed under paragraph (a) above, so far as the Directors are aware, the following persons are expected to have interests or short positions in the shares or underlying shares of our Company which are required to be disclosed to the provisions of Divisions 2 and 3 of Part XV of the SFO or, are expected to be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group.

Interests and short positions in the shares and underlying shares of our Company:

<u>Name</u>	<u>Nature of interest</u>	<u>Capacity</u>	<u>Number of Shares</u>	<u>Approximate percentage of shareholding⁽⁸⁾</u>
Think Wise ⁽¹⁾	L ⁽⁷⁾	Beneficial owner	262,684,813 - 318,077,318	32.84 - 39.76%
Opulent Ample ⁽²⁾	L ⁽⁷⁾	Beneficial owner	42,240,000	5.28%
Mr. Ding Weizhu ⁽²⁾	L ⁽⁷⁾	Interest in a controlled corporation	42,240,000	5.28%
Snowy Wise ⁽³⁾	L ⁽⁷⁾	Beneficial owner	42,240,000	5.28%
Rightful Style ⁽⁴⁾	L ⁽⁷⁾	Beneficial owner	42,240,000	5.28%
Splendid First ⁽⁵⁾	L ⁽⁷⁾	Beneficial owner	41,600,000	5.20%
Ms. Ting Lai Yan ⁽⁵⁾	L ⁽⁷⁾	Interest in a controlled corporation	41,600,000	5.20%
Chance Talent ⁽⁶⁾	L ⁽⁷⁾	Beneficial owner	43,522,682 - 98,915,187	5.44% - 12.36%

Note:

- (1) *Think Wise is wholly-owned and controlled by Mr. Ding. Accordingly, Mr. Ding is deemed to be interested in all the Shares in which Think Wise is interested pursuant to the SFO.*

The number of Shares exchangeable upon exercise of the exchange rights under the Exchangeable Notes will vary depending on the terms of the Exchangeable Notes. For illustration purposes only, adopting the mid-point of the indicative Offer Price range of HK\$1.96 per Share, Think Wise's interest in our Company will range from approximately 32.84% to approximately 39.76%.

- (2) *Opulent Ample is wholly-owned and controlled by Mr. Ding Weizhu, the father of Mr. Ding, Ms. Ding Lizhen and Mr. Ding Peiyuan, each an executive Director. Accordingly, Mr. Ding Weizhu is deemed to be interested in all the Shares in which Opulent Ample is interested.*
- (3) *Snowy Wise is wholly-owned and controlled by Ms. Ding Lizhen, an executive Director.*
- (4) *Rightful Style is wholly-owned and controlled by Mr. Ding Peiyuan, an executive Director.*
- (5) *Splendid First is wholly-owned and controlled by Ms. Ting Lai Yan, an elder sister of Mr. Ding, Ms. Ding Lizhen and Mr. Ding Peiyuan, each an executive Director. Accordingly, Ms. Ting Lai Yan is deemed to be interested in all the Shares in which Splendid First is interested.*

- (6) *The exact number of Shares to be transferred to Chance Talent upon exercise by Chance Talent of the exchange rights under the Exchangeable Notes will vary pursuant to the terms of the Exchangeable Notes. For illustration purpose only, adopting the mid-point of the indicative Offer Price range of HK\$1.96 per Share, Chance Talent's interest in our Company upon the Listing will range from approximately 5.44% to approximately 12.36%.*
- (7) *The letter "L" denotes long position.*
- (8) *On the basis that the Listing will be completed on or before October 31, 2014, without taking into account of any Shares to be issued upon exercise of the Over-allotment Option, options granted under the Pre-IPO Share Option Scheme or options which may be granted under the Share Option Scheme.*

2. Disclaimers

Save as disclosed in this prospectus:

- (a) our Directors are not aware of any person (not being our Director or chief executive) who will, immediately after completion of the Capitalization Issue and the Global Offering (without taking into account Shares which may be issued upon the exercise of the Over-allotment Option or the Shares which may be issued upon the exercise of options granted under our Pre-IPO Share Option Scheme and which may be granted under the Share Option Scheme), have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at our general meetings;
- (b) none of our Directors has any interest or short position in any of the Shares, underlying Shares or debentures or any shares, underlying shares or debentures of any associated corporation within the meaning of Part XV of the SFO, which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, in each case once the Shares are listed;
- (c) none of our Directors nor any of the parties listed in the section headed "Other Information — Consents of experts" in this Appendix is interested in the promotion of our Company, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of our subsidiaries;
- (d) none of our Directors nor any of the parties listed in the section headed "Other Information — Consents of experts" in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business;
- (e) save in connection with the Underwriting Agreements, none of the parties listed in the section headed "Other Information — Consents of experts" in this Appendix:
- (i) is interested legally or beneficially in any securities of our Company or any of our subsidiaries; or

- (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of our Company or any of our subsidiaries;
- (f) none of our Directors or their associates (as defined in the Listing Rules) or the existing Shareholders (who, to the knowledge of our Directors, owns more than 5% of our issued share capital) has any interest in any of the five largest customers or the five largest suppliers of our Group.

F. PRE-IPO SHARE OPTION SCHEME

1. Summary of terms

The purpose of the Pre-IPO Share Option Scheme is to give our employees an opportunity to have a personal stake in our Company and help motivate our employees to optimize their performance and efficiency, and also to retain our employees whose contributions are important to the long-term growth and profitability of our Group. The principal terms of the Pre-IPO Share Option Scheme, approved by written resolutions of our Shareholders dated December 27, 2013 are substantially the same as the terms of the Share Option Scheme except that:

- (a) the subscription price per Share under the Pre-IPO Share Option Scheme is equal to 80% of the final Offer Price;
- (b) the total number of Shares which may be issued upon the exercise of all options granted under the Pre-IPO Share Option Scheme is 7,000,000 Shares, representing approximately 0.9% of the enlarged share capital of our Company immediately after completion of the Capitalization Issue and the Global Offering (without taking into account any Shares to be issued upon exercise of the Over-allotment Option);
- (c) all options granted under the Pre-IPO Share Option Scheme can only be exercised in the following manner:

<u>Period within which option can be exercised</u>	<u>Maximum percentage of entitlement</u>
Any time after the first anniversary of the Listing Date	30% of the total numbers of options granted
Any time after the second anniversary of the Listing Date	30% of the total numbers of options granted
Any time after the third anniversary of the Listing Date	40% of the total numbers of options granted

- (d) save for the options which have been granted as at the Latest Practicable Date, no further options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date; and
- (e) each option granted under the Pre-IPO Share Option Scheme has an eight-year exercise period.

Application has been made to the Listing Committee of the Stock Exchange for the approval of the listing of and permission to deal in the 7,000,000 Shares to be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme.

2. Outstanding options granted

As at the date of this prospectus, options to subscribe for an aggregate of 7,000,000 Shares (representing approximately 0.9% of the enlarged issued share capital of our Company immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised) at an exercise price equal to 80% of the final Offer Price have been conditionally granted to 21 participants by our Company at a consideration of HK\$1.00 under the Pre-IPO Share Option Scheme. All the options under the Pre-IPO Share Option Scheme were granted on December 27, 2013 and no further options will be granted under the Pre-IPO Share Option Scheme prior to the Listing Date.

The options have been conditionally granted based on the performance of the grantees who have made important contributions and are important to the long term growth and profitability of our Group. A total of 21 employees including three executive Directors and four members of the senior management of our Group (whose particulars are set out in the section headed “Directors and Senior Management” of this prospectus) have been conditionally granted options under the Pre-IPO Share Option Scheme.

A full list of such grantees containing all the details in respect of each option required under paragraph 10 of the Third Schedule to the Companies Ordinance and Rule 17.02(1)(b) of and paragraph 27 of Part A of Appendix I to the Listing Rules is set out below:

<u>Grantee</u>	<u>Position</u>	<u>Address</u>	<u>Number of Shares to be issued upon full exercise of the Pre-IPO Share Option</u>	<u>Percentage of enlarged issued share capital of our Company after full exercise of the Pre-IPO Share Option</u>
Ding Peiyuan	Executive Director and Chief Operating Officer	15B, Baoshan Garden Hai'an Road Donghai Subdistrict Quanzhou Fujian PRC	800,000	0.1000%
Ding Lizhen	Executive Director and Vice President	Room 405, Building No. 5 Fuxin Garden Fengze Street Quanzhou Fujian PRC	800,000	0.1000%
Gu Jishi	Executive Director and Vice President	No. 9, Unit 3 No. 7, Paotongshu Street Qingyang District Chengdu Sichuan PRC	800,000	0.1000%

<u>Grantee</u>	<u>Position</u>	<u>Address</u>	<u>Number of Shares to be issued upon full exercise of the Pre-IPO Share Option</u>	<u>Percentage of enlarged issued share capital of our Company after full exercise of the Pre-IPO Share Option</u>
Ding Wanwan	Head of the production center	Employee Dormitory Building A No. 168, Chong Rong Street Economic Technology Development Zone Quanzhou Fujian PRC	800,000	0.1000%
Ng Cheuk Him	Chief Financial Officer and Joint Company Secretary	Flat E, 2/F., Leung Chau Building 78 Un Chau Street Sham Shui Po Kowloon Hong Kong	700,000	0.0875%
Chong Pui Shan	Design Director	Employee Dormitory Building A No. 168, Chong Rong Street Economic Technology Development Zone Quanzhou Fujian PRC	500,000	0.0625%
Wu Chentong	Finance Manager	Employee Dormitory Building A No. 168, Chong Rong Street Economic Technology Development Zone Quanzhou Fujian PRC	430,000	0.0538%
Li Guomin	Finance Deputy Manager	Employee Dormitory Building A No. 168, Chong Rong Street Economic Technology Development Zone Quanzhou Fujian PRC	400,000	0.0500%
Xu Yanming	Brand Management Manager	Employee Dormitory Building A No. 168, Chong Rong Street Economic Technology Development Zone Quanzhou Fujian PRC	300,000	0.0375%

<u>Grantee</u>	<u>Position</u>	<u>Address</u>	<u>Number of Shares to be issued upon full exercise of the Pre-IPO Share Option</u>	<u>Percentage of enlarged issued share capital of our Company after full exercise of the Pre-IPO Share Option</u>
Lu Yanping	Secretary to the Chairman of the Board and Joint Company Secretary	Employee Dormitory Building A No. 168, Chong Rong Street Economic Technology Development Zone Quanzhou Fujian PRC	200,000	0.0250%
Zhang Yi	Sales Manager	Employee Dormitory Building A No. 168, Chong Rong Street Economic Technology Development Zone Quanzhou Fujian PRC	150,000	0.0188%
Zeng Xianzi	Head of the Logistics Center	Employee Dormitory Building A No. 168, Chong Rong Street Economic Technology Development Zone Quanzhou Fujian PRC	150,000	0.0188%
Lai Ke	Sales Manager	Employee Dormitory Building A No. 168, Chong Rong Street Economic Technology Development Zone Quanzhou Fujian PRC	150,000	0.0188%
Ji Sheng	Human Resources Consultant	Employee Dormitory Building A No. 168, Chong Rong Street Economic Technology Development Zone Quanzhou Fujian PRC	120,000	0.0150%
Zhang Jing	Senior staff with Marketing and Sales Center	Employee Dormitory Building A No. 168, Chong Rong Street Economic Technology Development Zone Quanzhou Fujian PRC	100,000	0.0125%

<u>Grantee</u>	<u>Position</u>	<u>Address</u>	<u>Number of Shares to be issued upon full exercise of the Pre-IPO Share Option</u>	<u>Percentage of enlarged issued share capital of our Company after full exercise of the Pre-IPO Share Option</u>
Dong Dong	Senior Staff with Product Center	Employee Dormitory Building A No. 168, Chong Rong Street Economic Technology Development Zone Quanzhou Fujian PRC	100,000	0.0125%
Wang Fang	Senior staff with Marketing and Sales Center	Employee Dormitory Building A No. 168, Chong Rong Street Economic Technology Development Zone Quanzhou Fujian PRC	100,000	0.0125%
Huang Binyu	Senior staff with Marketing and Sales Center	Employee Dormitory Building A No. 168, Chong Rong Street Economic Technology Development Zone Quanzhou Fujian PRC	100,000	0.0125%
Luo Renlin	Senior staff with Marketing and Sales Center	Employee Dormitory Building A No. 168, Chong Rong Street Economic Technology Development Zone Quanzhou Fujian PRC	100,000	0.0125%
Zhang Yanyan	Senior staff with Product Center	Employee Dormitory Building A No. 168, Chong Rong Street Economic Technology Development Zone Quanzhou Fujian PRC	100,000	0.0125%
Zheng Xiaohong	Senior staff with Marketing and Sales Center	Employee Dormitory Building A No. 168, Chong Rong Street Economic Technology Development Zone Quanzhou Fujian PRC	100,000	0.0125%

The options issued under the Pre-IPO Share Option Scheme represent approximately 0.9% of our Company's enlarged issued share capital as at the Listing Date (without taking into account any Shares to be issued upon exercise of the Over-allotment Option). If all options are exercised, this would have a dilutive effect on our Shareholders of approximately 0.9% and a dilutive effect of approximately 2.5% on earnings per Share such that the forecast earnings per Share for the year ending December 31, 2013 will be diluted from approximately HK\$0.2 to approximately HK\$0.195. However, as the options are exercisable for a period of eight years, any such dilution and impact on earnings per Share will be staggered over several years. No further options will be granted under the Pre-IPO Share Option Scheme after the Listing Date.

Our Directors have undertaken to our Company that they will not exercise the Options granted under the Pre-IPO Share Option Scheme to such extent that the Shares held by the public (as defined in the Listing Rules) after completion of the Global Offering and the Capitalization Issue will fall below the required percentage set out in Rule 8.08 of the Listing Rules or such other percentage as approved by the Stock Exchange from time to time.

G. SHARE OPTION SCHEME

The following is a summary of principal terms of the Share Option Scheme conditionally approved by a resolution of our Shareholders passed on December 27, 2013 (the "Adoption Date"). The terms of the Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

1. Purpose

The purpose of the Share Option Scheme is to give the Eligible Persons (as mentioned in the following paragraph) an opportunity to have a personal stake in our Company and help motivate them to optimize their future performance and efficiency to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group, and additionally in the case of Executives (as defined below), to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

2. Who may join

The Board may, at its absolute discretion, offer options ("Options") to subscribe for such number of Shares in accordance with the terms set out in the Share Option Scheme to:-

- (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group ("Executive"), any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of our Group ("Employee");
- (b) a director or proposed director (including an independent non-executive director) of any member of our Group;
- (c) a direct or indirect shareholder of any member of our Group;
- (d) a supplier of goods or services to any member of our Group;

- (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group;
- (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and
- (g) an associate of any of the persons referred to in paragraphs (a) to (f) above (the person referred above are the “Eligible Persons”).

3. Maximum number of Shares

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of our Group shall not in aggregate exceed 80,000,000 Shares, representing 10% of the Shares in issue as at the Listing Date, excluding Shares which may fall to be issued upon the exercise of the Over-allotment Option granted by our Company, options granted under the Pre-IPO Share Option Scheme or options to be granted under the Share Option Scheme (the “Scheme Mandate Limit”) provided that:

- (a) our Company may at any time as our Board may think fit seek approval from our Shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of our Company shall not exceed 10% of the Shares in issue as at the date of approval by our Shareholders in general meeting where the Scheme Mandate Limit is refreshed. Options previously granted under the Share Option Scheme and any other schemes of our Company (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other schemes of our Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. Our Company shall send to our Shareholders a circular containing the details and information required under the Listing Rules;
- (b) Our Company may seek separate approval from our Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit, provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Person specified by our Company before such approval is obtained. Our Company should issue a circular to our Shareholders containing the details and information required under the Listing Rules.
- (c) The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of our Group shall not exceed 30% of our Company’s issued share capital from time to time. No Options may be granted under the Share Option Scheme and any other share option scheme of our Company if this will result in such limit being exceeded.

As of the Latest Practicable Date, no Option has been granted under the Share Option Scheme.

4. Maximum entitlement of each participant

No Option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to that person in any 12-month

period exceeds 1% of our Company's issued share capital from time to time. Where any further grant of Options to such an Eligible Person would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted to such Eligible Person (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant shall be separately approved by our Shareholders in general meeting with such Eligible Person and his or her associates abstaining from voting. Our Company shall send a circular to our Shareholders disclosing the identity of the Eligible Person, the number and terms of the Options to be granted (and Options previously granted) to such Eligible Person, and containing the details and information required under the Listing Rules. The number and terms (including the subscription price) of the Options to be granted to such Eligible Person must be fixed before the approval of our Shareholders and the date of the Board meeting proposing such grant shall be taken as the offer date for the purpose of calculating the subscription price of those Options.

5. Offer and grant of Options

Subject to the terms of the Share Option Scheme, the Board shall be entitled at any time within 10 years from the Adoption Date to offer the grant of an Option to any Eligible Person as the Board may in its absolute discretion select to subscribe at the subscription price for such number of Shares as the Board may (subject to the terms of the Share Option Scheme) determine (provided the same shall be a board lot for dealing in the Shares on the Stock Exchange or an integral multiple thereof).

6. Granting Options to connected persons

Subject to the terms in the Share Option Scheme, only insofar as and for so long as the Listing Rules require, where any offer of an Option is proposed to be made to a director, chief executive or a substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates, such offer must first be approved by the independent non-executive Directors of our Company (excluding the independent non-executive Director who or whose associates is the grantee of an Option).

Where any grant of Options to a substantial shareholder (as defined in the Listing Rules) or an independent non-executive Director of our Company, or any of their respective associates, would result in the securities issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (a) representing in aggregate over 0.1% of the relevant class of securities in issue; and
- (b) (where the securities are listed on the Stock Exchange), having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK\$5.0 million,

such further grant of Options must be approved by our Shareholders (voting by way of a poll). Our Company shall send a circular to our Shareholders containing the information required under the Listing Rules. All connected persons (as defined in the Listing Rules) of our Company must abstain from voting in favor at such general meeting.

Approval from our Shareholders is required for any change in the terms of Options granted to a participant who is a substantial shareholder or an independent non-executive Director of our Company, or any of their respective associates.

7. Restriction on the time of grant of Options

The Board shall not grant any Option under the Share Option Scheme after inside information has come to its knowledge until our Company has announced such information pursuant to the requirements of the Listing Rules. In particular, no Option shall be granted during the period commencing one month immediately preceding the earlier of the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and the deadline for our Company to publish an announcement of its results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcements.

8. Minimum holding period, vesting and performance target

Subject to the provisions of the Listing Rules, the Board may in its absolute discretion when offering the grant of an Option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as the Board may think fit (to be stated in the letter containing the offer of the grant of the Option) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by our Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the Option in respect of any of the Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an Option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the Option can be exercised.

9. Amount payable for Options and offer period

An offer of the grant of an Option shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the offer date provided that no such grant of an Option may be accepted after the expiry of the effective period of the Share Option Scheme. An Option shall be deemed to have been granted and accepted by the Eligible Person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the Option duly signed by the grantee together with a remittance in favor of our Company of HK\$1.00 by way of consideration for the grant thereof is received by our Company on or before the date upon which an offer of an Option must be accepted by the relevant Eligible Person, being a date no later than 28 days after the offer date (the "Acceptance Date"). Such remittance shall in no circumstances be refundable.

Any offer of the grant of an Option may be accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in respect of board lots for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer letter comprising acceptance of the offer of the Option. To the extent that the offer of the grant of an Option is not accepted by the Acceptance Date, it will be deemed to have been irrevocably declined.

10. Subscription price

The subscription price in respect of any particular Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the subscription price shall not be less than whichever is the highest of:

- (a) the nominal value of a Share;
- (b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and
- (c) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five Business Days (as defined in the Listing Rules) immediately preceding the offer date.

11. Exercise of Option

- (a) An Option shall be exercised in whole or in part (but if in part only, in respect of a board lot or any integral multiple thereof) within the Option period in the manner as set out in this Share Option Scheme by the grantee (or his or her legal personal representative(s)) by giving notice in writing to our Company stating that the Option is thereby exercised and specifying the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given. Within 30 days after receipt of the notice and, where appropriate, receipt of a certificate from our auditors pursuant to the Share Option Scheme, our Company shall accordingly allot and issue the relevant number of Shares to the grantee (or his or her legal personal representative(s)) credited as fully paid with effect from (but excluding) the relevant exercise date and issue to the grantee (or his or her legal personal representative(s)) share certificate(s) in respect of the Shares so allotted.
- (b) The exercise of any Option may be subject to a vesting schedule to be determined by the Board in its absolute discretion, which shall be specified in the offer letter.
- (c) The exercise of any Option shall be subject to the members of our Company in general meeting approving any necessary increase in the authorized share capital of our Company.
- (d) Subject as hereinafter provided:
 - (i) in the event that the grantee dies or becomes permanently disabled before exercising an Option (or exercising it in full), he or she (or his or her legal representative(s)) may exercise the Option up to the grantee's entitlement immediately prior to the death or permanent disability (to the extent not already exercised) within a period of 12 months following his or her death or permanent disability or such longer period as the Board may determine;
 - (ii) in the event that the grantee ceases to be an Executive for any reason (including his or her employing company ceasing to be a member of our Group) other than his or her death, permanent disability, retirement pursuant to such retirement

scheme applicable to our Group at the relevant time or the transfer of his or her employment to an affiliate company or the termination of his or her employment with the relevant member of our Group by resignation or termination on the ground of misconduct, the Option (to the extent not already exercised) shall lapse on the date of cessation of such employment and not be exercisable unless the Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such cessation;

- (iii) if a general offer is made to all holders of Shares and such offer becomes or is declared unconditional (in the case of a takeover offer) or is approved by the requisite majorities at the relevant meetings of our Shareholders (in the case of a scheme of arrangement), the grantee shall be entitled to exercise the Option (to the extent not already exercised) at any time (in the case of a takeover offer) within one month after the date on which the offer becomes or is declared unconditional or (in the case of a scheme of arrangement) prior to such time and date as shall be notified by our Company;
- (iv) if a compromise or arrangement between our Company and its members or creditors is proposed for the purpose of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company, our Company shall give notice thereof to the grantees who have Options unexercised at the same time as it dispatches notices to all members or creditors of our Company summoning the meeting to consider such a compromise or arrangement and thereupon each grantee (or his or her legal representatives or receiver) may until the expiry of the earlier of:
 - (1) the Option period (in respect of any particular Option, the period commencing immediately after the business day (as defined in the Listing Rules) on which the Option is deemed to be granted and accepted in accordance with the Share Option Scheme and expiring on a date to be determined and notified by our Directors to each grantee provided that such period shall not exceed the period of 10 years from the date of the grant of a particular Option but subject to the provisions for early termination thereof contained in the Share Option Scheme);
 - (2) the period of two months from the date of such notice; or
 - (3) the date on which such compromise or arrangement is sanctioned by the court, exercise in whole or in part his or her Option.
- (v) in the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it dispatches such notice to each member of our Company give notice thereof to all grantees and thereupon, each grantee (or his or her legal personal representative(s)) shall be entitled to exercise all or any of his or her options at any time not later than two Business Days (as defined in the Listing Rules) prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full

amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day (as defined in the Listing Rules) immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

12. Life of Share Option Scheme

Subject to the terms of this Share Option Scheme, the Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in force and effect to the extent necessary to give effect to the exercise of any subsisting Options granted prior to the expiry of the 10-year period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

13. Lapse of Share Option Scheme

An Option shall lapse automatically and not be exercisable, to the extent not already exercised, on the earliest of:

- (a) the expiry of the Option period;
- (b) the expiry of any of the period referred to paragraphs related to exercise of the Option;
- (c) subject to the terms of the period mentioned in the paragraph headed “Share Option Scheme — Exercise of Option” in this section, the date of the commencement of the winding-up of our Company;
- (d) there is an unsatisfied judgment, order or award outstanding against the grantee or the Board has reason to believe that the grantee is unable to pay or to have no reasonable prospect of being able to pay his/her/its debts;
- (e) there are circumstances which entitle any person to take any action, appoint any person, commence proceedings or obtain any order of the type mentioned in this Share Option Scheme with respect to the exercise of the Option;
- (f) a bankruptcy order has been made against any director or shareholder of the grantee (being a corporation) in any jurisdiction.

No compensation shall be payable upon the lapse of any Option, provided that the Board shall be entitled in its discretion to pay such compensation to the grantee in such manner as it may consider appropriate in any particular case.

14. Adjustment

In the event of any alteration to the capital structure of our Company while any Option remains exercisable, whether by way of capitalization of profits or reserves, right issue, consolidations, reclassification, reconstruction, sub-division or reduction of the share capital of our Company, the Board may, if it considers the same to be appropriate, direct that adjustments be made to:

- (a) the maximum number of Shares subject to the Share Option Scheme; and/or

- (b) the aggregate number of Shares subject to the Option so far as unexercised; and/or
- (c) the subscription price of each outstanding Option.

Where the Board determines that such adjustments are appropriate (other than an adjustment arising from a capitalization issue), the auditors appointed by our Company shall certify in writing to the Board that any such adjustments are in their opinion fair and reasonable, provided that:

- (a) any such adjustments shall be made on the basis that the aggregate subscription price payable by the grantee on the full exercise of any Option shall remain as nearly as practicable same as (but shall not be greater than) as it was before such event;
- (b) no such adjustments shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;
- (c) any such adjustments shall be made to in accordance with the provisions as stipulated under Chapter 17 of the Listing Rules and supplementary guidance on the interpretation of the Listing Rules issued by the Stock Exchange from time to time (including the supplemental guidance attached to the letter from the Stock Exchange dated September 5, 2005 to all issuers relating to Share Option Schemes); and
- (d) the issue of securities as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustments.

15. Cancellation of Options not exercised

The Board shall be entitled for the following causes to cancel any Option in whole or in part by giving notice in writing to the grantee stating that such Option is thereby cancelled with effect from the date specified in such notice (the "Cancellation Date"):

- (a) the grantee commits or permits or attempts to commit or permit a breach of restriction on transferability of Option or any terms or conditions attached to the grant of the Option;
- (b) the grantee makes a written request to the Board for the Option to be cancelled; or
- (c) if the grantee has, in the opinion of the Board, conducted himself in any manner whatsoever to the detriment of or prejudicial to the interests of our Company or its subsidiary.

The Option shall be deemed to have been cancelled with effect from the Cancellation Date in respect of any part of the Option which has not been exercised as at the Cancellation Date. No compensation shall be payable upon any such cancellation, provided that the Board shall be entitled in its discretion to pay such compensation to the grantee in such manner as it may consider appropriate in any particular case.

16. Ranking of Shares

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the Articles of Association and the laws of the Cayman Islands from time to time and shall rank *pari passu* in all respects with the then existing fully paid Shares in issue on the allotment date or,

if that date falls on a day when the register of members of our Company is closed, the first date of the re-opening of the register of members, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the allotment date or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members, other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be before the allotment date.

Share issued upon the exercise of an Option shall not carry rights until the registration of the grantee (or any other person) as the holder thereof.

17. Termination

Our Company may by resolution in general meeting at any time terminate the operation of the Share Option Scheme. Upon termination of the Share Option Scheme as aforesaid, no further Options shall be offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All Options granted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme.

18. Transferability

The Option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any Option or attempt to do so (save that the grantee may nominate a nominee in whose name the Shares issued pursuant to the Share Option Scheme may be registered). Any breach of the foregoing shall entitle our Company to cancel any outstanding Option or part thereof granted to such grantee.

19. Alteration of Share Option Scheme

The Share Option Scheme may be altered in any respect by a resolution of the Board except that the following shall not be carried out except with the prior sanction of an ordinary resolution of the our Shareholders in general meeting:

- (a) any material alteration to its terms and conditions or any change to the terms of Options granted (except where the alterations take effect under the existing terms of the Share Option Scheme);
- (b) any alteration to the provisions of the Share Option Scheme in relation to the matters set out in Rule 17.03 of the Listing Rules to the advantage of grantee; and
- (c) any alteration to the aforesaid termination provisions.

provided always that the amended terms of the Share Option Scheme shall comply with the applicable requirements of the Listing Rules.

20. Conditions of the Share Option Scheme

The Share Option Scheme shall come into effect on the date on which the following conditions are fulfilled:

- (a) subject to (b) and (c) below, the approval and adoption of the Share Option Scheme by our Shareholders;
- (b) the approval of the Stock Exchange for the listing of and permission to deal in, a maximum of 80,000,000 Shares to be allotted and issued pursuant to the exercise of the Share Option Scheme in accordance with the terms and conditions of the Share Option Scheme; and
- (c) the commencement of dealing of the Shares on the Main Board of the Stock Exchange.

If any of the above conditions are not satisfied on or before the date which is 30 days after the date of this prospectus (or such later date as the Board may decide), the Share Option Scheme shall forthwith terminate and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme. Application has been made to the Stock Exchange for the Listing of 80,000,000 Shares which may be issued pursuant to the exercise of Options under the Share Option Scheme.

H. OTHER INFORMATION

1. Estate duty, tax and other indemnity

Our Controlling Shareholders have entered into the Deed of Indemnity with our Company (for ourselves and as trustee for each of our subsidiaries) on December 16, 2013 to provide indemnities in respect of, among other matters, certain liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of certain transfers of property (by virtue of section 35 and/or section 43 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong) to any member of our Group on or before the date on which the conditions of the Global Offering are fulfilled or waived in accordance with the terms set forth in the sub-section headed “Structure of the Global Offering — Conditions of the Global Offering” in this prospectus (the “Relevant Date”).

Pursuant to the Deed of Indemnity, our Controlling Shareholders have also given joint and several indemnities to our Company for ourselves and as trustee for our subsidiaries in connection with, among other things, any taxation which might be payable by any member of our Group resulting from or by reference to any income, profits or gains earned, accrued or received on or before the Relevant Date or any event or transaction on or before such date whether alone or in conjunction with any circumstances whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company.

In addition, our Controlling Shareholders have also jointly and severally agreed with each of the members of our Group that it will indemnify and at all times keep them and each of them fully indemnified on demand against any penalties or fines arising from (a) the aromatic amine levels in a batch of 9,740 deep-blue children’s jeans (Product Number: RQF115284) manufactured by a manufacturer of our Company exceeding the safety threshold under the National General Safety Technical Code for Textile Products (GB18401-2010) according to the product quality

examination result published by Beijing Consumer Association in May 2013; and (b) a batch of 498 units of our Company's boy's knitted jackets (Product Number: RQF113017) failing to meet the fiber content analysis, instructions guidance and the durability of fabric color tests under the relevant national quality standards, and a batch of 8,848 units of our Company's boy's hoodies (Product Number: 1230418) failing to meet the fiber content analysis and the durability of fabric color tests under the relevant national quality standards according to an examination result released by Jilin Bureau of Industry and Commerce in April 2013, together with all necessary costs (including all legal costs), expenses, all interests, penalties or other liabilities which any of the members of our Group may proper and reasonably incur in connection with (i) the investigation, assessment, contesting or the settlement of any claim under the Deed of Indemnity; (ii) any legal proceedings in which any of the members of our Group claims under or in respect of the Deed of Indemnity and in which judgment is given for any of the members of our Group; or (iii) the enforcement of any such settlement or judgment referred to in (i) and (ii) above, falling on any of the members of our Group resulting from or by reference to any income, profits or gains earned, accrued or received on or before the Relevant Date or any event or transaction on or before the Relevant Date whether alone or in conjunction with any circumstances whenever occurring and whether or not such claim could be pursued against or attributable to any other person, firm or company.

The Deed of Indemnity does not apply:

- (a) to the extent that provision or allowance has been made for such liability, taxation or claim in the consolidated audited accounts (the "Accounts") of our Group for the three years ended December 31, 2012 and the six months ended June 30, 2013; or
- (b) to any liability or claim falling on any of the members of our Group in respect of their current accounting periods or any accounting period commencing on or after June 30, 2013 unless such liability or claim would not have arisen but for any act or omission of, or transaction voluntarily effected by, any of the members of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of our Controlling Shareholders other than any such act, omission or transaction:
 - (1) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after June 30, 2013; or
 - (2) carried out, made or entered into pursuant to a legally binding commitment created on or before June 30, 2013; or
 - (3) consisting of any of the members of our Group ceasing, or being deemed to cease, to be a member of any group of companies or being associated with any other company for the purposes of any matter of taxation; or
- (c) to the extent that any claim arises or is incurred as a result of any retrospective change in law or practice coming into force after the Relevant Date or to the extent such claim arises or is increased by an increase in the rates of taxation after the Relevant Date with retrospective effect; or
- (d) to the extent of any provision or reserve made for taxation in the Accounts which is finally established to be an over-provision or an excessive reserve provided that the

amount of any such provision or reserve so applied to reduce our Controlling Shareholders' liability in respect of such taxation shall not be available in respect of any such liability arising thereafter.

2. Litigation

As at the Latest Practicable Date, neither we nor any of our subsidiaries were/was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on its results of operations or financial condition.

3. Preliminary expenses

Our estimated preliminary expenses are approximately US\$6,500 and have been paid by us.

4. Promoter

There are no promoters of our Company.

5. Joint Sponsors

The Joint Sponsors made an application on our behalf to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue as mentioned herein, the Shares to be issued pursuant to the Capitalization Issue and any Shares falling to be issued pursuant to the exercise of the Over-allotment Option, and the Shares that may be issued upon the exercise of options granted under the Pre-IPO Share Option Scheme and may be granted the Share Option Scheme. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

6. No material adverse change

Our Directors confirm that as of the date of this prospectus, there has been no material adverse change in their financial or trading position or prospects since June 30, 2013 (being the date to which our latest audited consolidated financial statements were made up).

7. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

8. Miscellaneous

Save as disclosed in this prospectus:

- (a) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (b) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

- (c) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
- (d) within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group;
- (e) within the two years preceding the date of this prospectus, no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company;
- (f) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought; and
- (g) we have no outstanding convertible debt securities.

9. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

<u>Name</u>	<u>Qualification</u>
CCB International Capital Limited	Licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
China Galaxy International Securities (Hong Kong) Co., Limited	Licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
KPMG	Certified Public Accountants
Frost & Sullivan	Independent industry consultant
Conyers Dill & Pearman (Cayman) Limited	Cayman Islands attorneys-at-law
Jingtian & Gongcheng	PRC legal adviser to our Company

10. Consents of experts

Each of CCB International Capital Limited, China Galaxy International Securities (Hong Kong) Co., Limited, KPMG, Frost & Sullivan, Conyers Dill & Pearman (Cayman) Limited and Jingtian & Gongcheng has given and has not withdrawn their respective consent to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

11. Bilingual prospectus

The English language and the Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE, YELLOW** and **GREEN** Application Forms, the written consents referred to in the paragraph headed “Consents of experts” in Appendix V and copies of the material contracts referred to in the paragraph headed “Summary of the material contracts” in Appendix V.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Orrick, Herrington & Sutcliffe at 43rd Floor, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including January 13, 2013:

- (1) our Memorandum and Articles of Association;
- (2) the Accountants’ Report prepared by KPMG, the text of which is set out in Appendix I to this prospectus;
- (3) the audited financial statements as have been prepared for the companies now comprising our Group for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013;
- (4) the report received from KPMG on unaudited pro forma financial information, the texts of which is set out in Appendix II to this prospectus;
- (5) the letters prepared by KPMG and the Joint Sponsors relating to the profit forecast, the texts of which are set out in Appendix III to this prospectus;
- (6) the material contracts referred to in the paragraph headed “Summary of the Material Contracts” of Appendix V to this prospectus;
- (7) the service contracts and appointment letters with Directors, referred to in the paragraph headed “Directors’ service contracts and appointment letters” of Appendix V to this prospectus;
- (8) the written consents referred to in the paragraph headed “Consents of experts” of Appendix V to this prospectus;
- (9) the PRC legal opinions prepared by Jingtian & Gongcheng, our legal adviser as to the PRC law, in respect of certain aspects of our Group and our property interests;
- (10) the letter of advice prepared by Conyers Dill & Pearman (Cayman) Limited summarizing certain aspects of Companies Law referred to in Appendix IV to this prospectus;
- (11) the Frost & Sullivan Report;
- (12) the Companies Law;
- (13) the rules of the Pre-IPO Share Option Scheme; and
- (14) the rules of the Share Option Scheme.

MIKO INTERNATIONAL HOLDINGS LIMITED
米格國際控股有限公司

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