# 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)**

## ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

**FINANCIAL HIGHLIGHTS**

| | For the six months ended 30 June | | |
|---|---|---|---|
| | **2014** | 2013 | |
| | ***RMB'000*** | *RMB'000* | *Change* |
| Turnover | **315,162** | 253,185 | +24.5% |
| Gross profit | **121,988** | 94,639 | +28.9% |
| Profit from operations | **65,788** | 59,317 | +10.9% |
| Profit for the period and attributable to ordinary share holders | **43,623*** | 42,228 | +3.3% |
| * *after deducting an one-off listing expenses of RMB12.6 million* | | | |
| Basic and diluted earnings per share *(RMB cents)* | **5** | 7 | |
| Gross profit margin | **38.7%** | 37.4% | |
| Operating profit margin | **20.9%** | 23.4% | |
| Net profit margin | **13.8%** | 16.7% | |

The Board resolved to declare an interim dividend of HK2 cents per ordinary share of the Company.

## INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of Miko International Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2014 together with the comparative figures for the same period of last year as follows:

**Consolidated statement of profit or loss and other comprehensive income — unaudited**

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2014** | 2013 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| **Turnover** | 3 | **315,162** | 253,185 |
| Cost of sales | | **(193,174)** | (158,546) |
| **Gross profit** | | **121,988** | 94,639 |
| Other revenue | 4 | **1,550** | 230 |
| Other net income/(loss) | 4 | **110** | (781) |
| Selling and distribution expenses | | **(28,776)** | (22,509) |
| Administrative and other operating expenses | | **(29,084)** | (12,262) |
| **Profit from operations** | | **65,788** | 59,317 |
| Finance costs | | **(2,201)** | (1,582) |
| **Profit before taxation** | 5 | **63,587** | 57,735 |
| Income tax | 6 | **(19,964)** | (15,507) |
| **Profit for the period** | | **43,623** | 42,228 |
| **Other comprehensive income for the period** | | | |
| Item that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translation of financial statements of operations outside mainland China | | **(923)** | 2,258 |
| **Total comprehensive income for the period** | | **42,700** | 44,486 |
| **Earnings per share** *(RMB cents)* | | | |
| Basic and diluted | 7 | **5** | 7 |

**Consolidated statement of financial position — unaudited**

| | Note | As at 30 June 2014 RMB'000 | As at 31 December 2013 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **47,022** | 39,021 |
| Intangible assets | | **522** | 535 |
| Lease prepayments | | **2,985** | 3,029 |
| Deposits for purchase of a property | | **92,000** | 51,750 |
| Deferred tax assets | | **3,883** | 2,105 |
| | | **146,412** | 96,440 |
| **Current assets** | | | |
| Inventories | 8 | **34,819** | 38,761 |
| Trade and other receivables | 9 | **237,277** | 257,458 |
| Restricted bank deposits | | **1,200** | — |
| Fixed deposits held at banks with maturity over three months | | **47,680** | — |
| Cash and cash equivalents | | **464,962** | 260,079 |
| | | **785,938** | 556,298 |
| **Current liabilities** | | | |
| Bank loans | | **37,700** | 76,890 |
| Trade and other payables | 10 | **43,451** | 188,573 |
| Current taxation | | **10,610** | 15,953 |
| | | **91,761** | 281,416 |
| **Net current assets** | | **694,177** | 274,882 |
| **Total assets less current liabilities** | | **840,589** | 371,322 |
| **Net assets** | | **840,589** | 371,322 |
| **Equity** | | | |
| Share capital | 11 | **6,483** | 8 |
| Reserves | 11 | **834,106** | 371,314 |
| **Total equity** | | **840,589** | 371,322 |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

## 1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, Interim financial reporting, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 20 August 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of Miko International Holdings Limited (the "Company") and its subsidiaries (together the "Group") since the 2013 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by the audit committee of the Company. It has also been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The financial information relating to the financial year ended 31 December 2013 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2013 are available from the Company's registered office. The auditor has expressed an unqualified opinion on those financial statements in their report dated 25 March 2014.

## 2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of amendments to International Financial Reporting Standards ("IFRSs") and of these, only one new amendment that become first effective for the current accounting period is relevant to the Group's financial statements:

**Amendments to IAS 32, Offsetting financial assets and financial liabilities**

The amendments to IAS 32 clarify the offsetting criteria in IAS 32. The amendments do not have an impact on the Group's interim financial report as they are consistent with the policies already adopted by the Group.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

## 3 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.

Revenue from major customers contributing over 10% of the turnover of the Group, is as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Customer A | **52,549** | 37,096 |
| Customer B | **38,292** | 25,251 |

Revenue from customer B contributed less than 10% of the turnover of the Group for the six months ended 30 June 2013.

## 4 OTHER REVENUE AND OTHER NET INCOME/(LOSS)

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| **Other revenue** | | |
| Interest income | **1,214** | 230 |
| Government grants | **336** | — |
| | **1,550** | 230 |
| **Other net income/(loss)** | | |
| Net foreign exchange gain/(loss) | **110** | (781) |

## 5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| **(a) Finance costs:** | | |
| Interest on bank loans | **2,201** | 1,582 |
| **(b) Staff costs:** | | |
| Contributions to defined contribution retirement plans | **269** | 102 |
| Equity-settled share-based payment expenses | **1,640** | — |
| Salaries, wages and other benefits | **19,989** | 12,897 |
| | **21,898** | 12,999 |
| **(c) Other items:** | | |
| Amortisation | | |
| — lease prepayments | **44** | 44 |
| — intangible assets | **18** | 7 |
| Depreciation | **1,486** | 1,559 |
| Operating lease charges in respect of properties | **1,119** | 755 |
| Research and development *(note (i))* | **2,511** | 3,763 |
| Cost of inventories *(note (ii))* | **193,174** | 158,546 |

(i) Research and development for the six months ended 30 June 2014 includes RMB1,438,000 (six months ended 30 June 2013: RMB1,171,000) relating to staff salaries which amount is included in the total amounts disclosed in notes 5(b) above.

(ii) Cost of inventories for the six months ended 30 June 2014 includes RMB11,350,000 (six months ended 30 June 2013: RMB7,936,000) relating to staff costs and depreciation, which amount is included in the respective total amounts disclosed separately in notes 5(b) and (c) above for each of these types of expenses.

## 6 INCOME TAX

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| **Current tax** | | |
| PRC corporate income tax | **21,743** | 15,150 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(1,779)** | 357 |
| | **19,964** | 15,507 |

(i) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands ("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 for six months ended 30 June 2013 and 2014.

(iii) The applicable income tax rate for all of the Group's subsidiaries in mainland China is 25%.

## 7 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the period of RMB43,623,000 (six months ended 30 June 2013: RMB42,228,000) and the weighted average of 808,840,000 ordinary shares (six months ended 30 June 2013: 640,000,000 shares, comprising 1,000,000 ordinary shares as at 30 June 2013 as if these shares were outstanding throughout the period and after adjusting for the capitalisation issue in 2014) in issue during the interim period.

### (b) Diluted earnings per share

The effect of the Company's share options was anti-dilutive for the six months ended 30 June 2014. During the six months ended 30 June 2013, there were no dilutive potential ordinary shares issued.

## 8 INVENTORIES

| | As at 30 June 2014 *RMB'000* | As at 31 December 2013 *RMB'000* |
|---|---|---|
| Raw materials | **4,786** | 4,413 |
| Work in progress | **4,817** | 4,757 |
| Finished goods | **25,216** | 29,591 |
| | **34,819** | 38,761 |

## 9 TRADE AND OTHER RECEIVABLES

| | As at 30 June 2014 *RMB'000* | As at 31 December 2013 *RMB'000* |
|---|---|---|
| Trade receivables | **177,795** | 235,889 |
| Prepayments to suppliers | **58,295** | 18,255 |
| Other deposits, prepayments and receivables | **1,187** | 3,314 |
| | **237,277** | 257,458 |

Normally, the Group does not obtain collateral from customers. Credit evaluations are performed by the senior management on all customers with credit sales. In general, the credit period granted to customers is 90 days.

As of the end of the reporting period, the ageing analysis of trade receivables of the Group based on invoice dates or date of revenue recognition, if earlier, is as below:

| | As at 30 June 2014 *RMB'000* | As at 31 December 2013 *RMB'000* |
|---|---|---|
| Within 3 months | **177,620** | 235,729 |
| After 3 months but within 6 months | **175** | 160 |
| | **177,795** | 235,889 |

## 10 TRADE AND OTHER PAYABLES

| | **As at 30 June 2014** | As at 31 December 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade payables | **11,120** | 16,036 |
| Receipts in advance | **—** | 104 |
| Amount due to a related party | **—** | 144,855 |
| Other payables and accruals | **32,331** | 27,578 |
| | **43,451** | 188,573 |

Set out below is an ageing analysis of the trade payables at the end of the reporting period based on invoice dates:

| | **As at 30 June 2014** | As at 31 December 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 3 months | **11,120** | 16,036 |

## 11 SHARE CAPITAL, RESERVES AND DIVIDENDS

### (a) Share capital

*(i) Authorised and issued share capital*

| | **At 30 June 2014** | | | At 31 December 2013 | | |
|---|---|---|---|---|---|---|
| | ***No. of shares*** | ***HK$'000*** | ***RMB'000*** | *No. of shares* | *HK$'000* | *RMB'000* |
| **Authorised:** | | | | | | |
| Ordinary shares of HK$0.01each | **10,000,000,000** | **100,000** | **79,380** | 10,000,000,000 | 100,000 | 78,620 |
| **Ordinary shares, Issued and fully paid:** | | | | | | |
| At 15 March 2013 | **—** | **—** | **—** | 100 | — | — |
| Reorganisation | **—** | **—** | **—** | 999,900 | 10 | 8 |
| At 1 January 2014 | **1,000,000** | **10** | **8** | — | — | — |
| Capitalisation issue *(Note 11(a)(ii))* | **639,000,000** | **6,390** | **5,027** | — | — | — |
| Shares issued by global offering *(Note 11(a)(iii))* | **184,000,000** | **1,840** | **1,448** | — | — | — |
| At 30 June/31 December | **824,000,000** | **8,240** | **6,483** | 1,000,000 | 10 | 8 |

*(ii) Capitalisation issue*

On 15 January 2014, 639,000,000 ordinary shares of HK$0.01 each were issued at par value to the shareholders of the Company by way of capitalisation of HK$6,390,000 (equivalent to RMB5,027,000) from the Company's share premium account. Consequently, the total number of shares outstanding after the capitalisation issue was 640,000,000.

*(iii) Shares issued by global offering*

The shares of the Company were listed on The Stock Exchange of Hong Kong Limited on 15 January 2014, with a total number of 800,000,000 shares, among which 160,000,000 (20% of the total number of shares of the Company) were issued to the public at HK$2.28 per share. The gross proceeds received by the Company from the global offering were approximately HK$364,800,000 (equivalent to RMB286,988,000).

On 22 January 2014, a total number of 24,000,000 shares were issued by the Company at HK$2.28 per share upon the exercise of over-allotment shares option. The additional gross proceeds received by the Company in connection with the issuance of over-allotment shares were approximately HK$54,720,000 (equivalent to RMB43,092,000).

**(b) Share premium**

Under the Companies Law of the Cayman Islands, the funds in the Company's share premium account are distributable to the shareholders provided that immediately following the date on which the dividend is proposed to be distributed. The Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

**(c) Dividends**

(i) Dividends payable to equity shareholders attributable to the interim period:

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Interim dividend declared and payable after the interim period of HK2 cents per share (six months ended 30 June 2013: nil) | **13,082** | — |

The interim dividend has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period:

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK5 cents per ordinary share (six months ended 30 June 2013: nil) | **32,791** | — |

**(d) Capital contribution**

Think Wise Holding Investment Limited ("Think Wise"), the immediate controlling party of the Group waived an outstanding amount of HK$184,239,688 (equivalent to RMB 145,549,000) due from Red Kids Group (Hong Kong) Limited ("Red Kids Hong Kong"), a subsidiary of the Group in January 2014. This deed of waiver has been reflected as a reduction of amount due to Think Wise and a corresponding increase in the capital reserve of the Group during the six months ended 30 June 2014.

## MANAGEMENT DISCUSSION AND ANALYSIS

## MARKET REVIEW

The youth and child population aged between 0 and 16 has already exceeded 300 million in China. With the generations born in the 1980s and 1990s entering the childbearing period, together with the permission to have two children if either parent is an only child, a further increase in child population going forward has provided a solid foundation for the rapid development of the children's apparel market. According to Euromonitor, an independent third party market research company, the size of children's apparel market in China will reach RMB130 billion in 2014 and is expected to grow to near RMB180 billion in 2017, representing a CAGR of 11.25% in the four years.

The promising market prospect has prompted the children's apparel industry to flourish although the general environment of China's apparel retail industry remained lacklustre in the first half of 2014.

A series of effective marketing strategies, coupled with the recognition of our brand's value-for-money characteristics and a marked increase in e-commerce business, brought our Group's turnover to RMB315.2 million in the first half of 2014, an increase of approximately 24.5% as compared to RMB253.2 million in the first half of 2013.

**We put more efforts on product differentiation and enrich our product offerings and take advantage of product extension by developing more accessories and apparel products for children of different ages.**

Since the first half of 2014, our research and development efforts started to cover accessories such as underwear, socks, gloves and scarves. In the meantime, we have made good progress in developing products for children of 80cm–100cm tall. The above measures have provided sustainable profitability for the business of our distributors.

**We continue to upgrade and restructure our existing channels and foster and strengthen distributors' awareness of market competition. Distributors are encouraged to further develop their regional markets in the form of "one distributor, multiple shops" and to create a "brand operation ecosphere" through the improvement on shop structure.**

We systematically restructure and upgrade some existing channels in phases in order to expand the operating areas in stores. We also suggest and assist distributors to relocate stores in unfavorable locations to better business districts. Meanwhile, we communicate with distributors to help them balance their store structure in regional markets. An effective combination of rental stores, shopping mall concessions and community shops can minimize distributors' inventory risks, enhance the profitability of their brands and consolidate our brands' influence in third- and fourth-tier cities. As at 30 June 2014, our distributors and sub-distributors had 644 retail stores, about 464 of which were located in third- and fourth-tier cities.

The following table sets forth a breakdown of our branded retail outlets by distribution channel and city type.

| | **As at 30 June 2014** | As at 31 December 2013 |
|---|---|---|
| Shopping mall outlets and concessions | **291** | 284 |
| Street shops | **353** | 317 |
| | **644** | 601 |

| | **As at 30 June 2014** | As at 31 December 2013 |
|---|---|---|
| First-tier cities | **97** | 94 |
| Second-tier cities | **83** | 74 |
| Third-tier cities | **53** | 48 |
| Fourth-tier cities | **411** | 385 |
| | **644** | 601 |

**The retail service principles to which we consistently adhere enable us to highly align with the operation philosophy of distributors. Meanwhile, with the strong support and control of our management team, unified retail and operation standards of brands are established, boosting the profitability of distributors.**

Our retail management team combines its analysis of distributors' daily operation statistics collected during market exploration with the overall performance of the industry to provide them with accurate instructions in sales fairs, in order to achieve continuous and stable annual growth in their future orders. Proactive involvement in distributors' operation enables us to have direct access to first-hand market information in the industry. Collecting and organizing such information will help us improve our product mix as well as better cater for consumers' consumption desire.

**Dissemination and promotion strategies of "decentralization" enable us to enhance our brand value and guarantee our prominent position in core third- and fourth-tier cities in the future.**

Generations born in the 1980s and 1990s represent a new generation of consumption power. They are raised as brand consumers and thus "a generation embellished with brands". Such mainstream purchasing power at the moment and for the next 10 years, instead of following their parents' rational choice of brands, has rushed into an emotional consumption age. We dedicate ourselves to influencing their purchase behavior with brand stories via multiple channels and in multiple dimensions and have enjoyed, thanks to our efforts, satisfactory brand performance on the brand-new we-media platforms such as Weibo and WeChat.

## OUTLOOK

Although we still face market uncertainties in the future due to severe industry homogeneity and weak consumer confidence, a myriad of effective brand operation measures are implemented, allowing our distributors to have sufficient confidence and adequate preparation. We will gradually adopt our tested ERP system on certain major regional distributors to obtain retail statistics, regional market features and consumption trends, which will lay a sound foundation for the provision of accurate guidance on distributors' order and replenishment plans and the effective elimination of undesirable inventories. Meanwhile, with more active participation, we will help our e-commerce distributor deepen his multi-channel operations for the purpose of sales enhancement.

We are planning to introduce accessories such as apparel and shoes for babies and children aged between 0 and 3 in our spring/summer sales fair in the second half of 2014. Such products are expected to be launched in the first half of 2015. We will also run multi-brand operations through brand cooperation and acquisition when appropriate opportunities arise, so as to capture incremental consumer demand in future markets and the growing and pressing development needs of distributors.

Our Group will, as always, hold on to the orientation of brand retail and form a valuable community with our distributors and suppliers in order to maintain a sustainable and stable development momentum and create more value for our shareholders.

## FINANCIAL REVIEW

### Turnover

Benefitting from strengthened brand recognition and consumer royalty by enhancing our products differentiation to other industry peers, our Group was able to record an increase in both average wholesale selling price and sales volume of our products. The average wholesale selling price of our products rose by 6.4% to RMB48.1 per unit for 1H 2014 (1H 2013: RMB45.2 per unit). Sales volume of our products was approximately 6.5 million units for 1H 2014, representing an increase of 16.1%, as compared to approximately 5.6 million units for 1H 2013. As a result, our Group recorded an increase in turnover by RMB62.0 million or approximately 24.5%, from RMB253.2 million for 1H 2013 to RMB315.2 million for 1H 2014.

| | **1H 2014** | 1H 2013 | % change |
|---|---|---|---|
| Sales volume *(million units)* | **6.5** | 5.6 | 16.1 |
| Average wholesale selling price *(RMB)* | **48.1** | 45.2 | 6.4 |

Sales to distributors was RMB261.8 million, accounted for approximately 83.1% of our turnover for 1H 2014 (1H 2013: RMB215.5 million and 85.0%). As at 30 June 2014, we had 23 distributors, who in turn sell our products to end customers or resell our products to their sub-distributors. Our distributors and their sub-distributors have established an extensive retail network with around 644 retail outlets, covering most of the provinces and municipalities in China.

To capture the significant market potential and tremendous demand of children's apparels for online shopping in China, we continue to expand online sales through collaboration with our designated online distributor. This online distributor purchases our products on a wholesale basis and resells them to end customers through online sales platforms such as Taobao, VIPShop and V+. For 1H 2014, sales to the online distributor was RMB52.5 million, representing a surge of around 41.7% as compared to RMB37.1 million for 1H 2013. Sales to the online distributor accounted for approximately 16.7% of our turnover for 1H 2014 (1H 2013: 14.7%).

Our Group have established the first self-operated store in Fujian province in August 2013. Sales from this self-operated store was RMB0.4 million for 1H 2014, representing approximately 0.1% of our turnover. (1H 2013: Nil).

Sales of apparel products to distributors, online distributor and end customers through self-operated store have accounted for substantially all of our turnovers. The remaining insignificant portion of our turnovers represented OEM services to customers whose products were mainly for export purpose.

The tables below set forth our turnover by (i) product/service category and (ii) sales channel for the period indicated:

| | **1H 2014** | | 1H 2013 | | % change |
|---|---|---|---|---|---|
| | ***RMB'000*** | *%* | *RMB'000* | *%* | |
| Apparel | **314,741** | **99.9** | 252,550 | 99.7 | 24.6 |
| OEM services | **421** | **0.1** | 635 | 0.3 | (33.7) |
| | **315,162** | **100.0** | 253,185 | 100.0 | 24.5 |

| | **1H 2014** | | 1H 2013 | | % change |
|---|---|---|---|---|---|
| | ***RMB'000*** | *%* | *RMB'000* | *%* | |
| Sales to distributors | **261,806** | **83.1** | 215,454 | 85.0 | 21.5 |
| Sales to online distributor | **52,549** | **16.7** | 37,096 | 14.7 | 41.7 |
| Sales from self-operated store | **386** | **0.1** | — | — | N/A |
| OEM services | **421** | **0.1** | 635 | 0.3 | (33.7) |
| | **315,162** | **100.0** | 253,185 | 100.0 | 24.5 |

**Cost of Sales**

Our cost of sales increased by RMB34.7 million or 21.9%, from RMB158.5 million for 1H 2013 to RMB193.2 million for 1H 2014. The increase was generally in line with the increase in our turnover. As a percentage of cost of sales, purchases from OEM factories accounted for approximately 68.1% for 1H 2014, as compared to that of 68.1% for 1H 2013 and 73.7% for the fiscal year 2013.

**Gross Profit and Gross Profit Margin**

Our Group were able to increase the average wholesale selling price of our products without giving a higher wholesale discount rate to our distributors and online distributor for 1H 2014. As a result, our gross profit increased by RMB27.4 million, from RMB94.6 million for 1H 2013 to RMB122.0 million for 1H 2014. Gross profit margin also increased by 1.3 percentage points, from 37.4% for 1H 2013 to 38.7% for 1H 2014.

**Other Revenue and Other Net (Loss)/Income**

Other revenue primarily consisted of interest income of RMB1.2 million (1H 2013: RMB0.2 million) and government subsidy of RMB0.3 million for 1H 2014(1H 2013: Nil).

**Selling and Distribution Expenses**

Selling and distribution expenses was RMB28.8 million for 1H 2014 (1H 2013: RMB22.5 million). The increase in selling and distribution expenses was mainly due to the increase in marketing reimbursements to our distributors for their opening new stores and marketing and promotional activities. As a percentage of turnover, it was approximately 9.1% and 8.9%, respectively, for 1H 2014 and 1H 2013.

**Administrative and Other Operating Expenses**

Administrative and other operating expenses was RMB29.1 million for 1H 2014, representing an increase of 136.6% as compared to RMB12.3 million for 1H 2013. As a percentage of turnover, it also increased from 4.8% for 1H 2013 to 9.2% for 1H 2014. The significant increase in the administrative and other operating expenses mainly reflected the increase in (i) listing expenses of approximately RMB12.6 million relating to legal, financial advisory and other professional services, and (ii) amortisation in relation to the Pre-IPO share options of RMB1.6 million.

**Finance Costs**

Finance costs was RMB2.2 million for 1H 2014, as compared to RMB1.6 million for 1H 2013. The increase in the monthly balances of bank borrowings during 1H 2014 resulted in the increase in finance costs.

**Income Tax Expenses**

Income tax expenses increased from RMB15.5 million for 1H 2013 to RMB20.0 million for 1H 2014. The increase in income tax expenses was primarily due to an increase in our taxable income. The effective tax rate was 31.4% and 26.9%, respectively, for 1H 2014 and 1H 2013.

**Profit for the Period**

As a result of the foregoing, profit for the period slightly increased by RMB1.4 million or 3.3%, from RMB42.2 million for 1H 2013 to RMB43.6 million for 1H 2014.

**Working Capital Management**

Our Group recorded net current assets of RMB694.2 million with a current ratio of 8.6 times as of 30 June 2014. (31 December 2013: RMB274.9 million and 2.0 times). The shares of the Company were listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 January 2014 with net proceeds from the global offering of approximately HK$362.0 million (equivalent to RMB285.0 million). The unutilised net proceeds from the global offering placed with different banking institutions resulted in the sharp increase in net current assets and current ratio as at 30 June 2014.

Inventories recorded a decrease by RMB4.0 million, from RMB38.8 million as of 31 December 2013 to RMB34.8 million as of 30 June 2014. Inventory turnover was 35 days for 1H 2014, which was comparable to 34 days for 1H 2013.

Trade receivables decreased by RMB58.1 million, from RMB235.9 million as of 31 December 2013 to RMB177.8 million as of 30 June 2014. The significant decrease in trade receivables was mainly due to the seasonal fluctuations in turnover. Our Group generally record higher sale revenues in the second half of the year which in turn lead to a larger balance of trade receivables as of 31 December each year. Trade receivables turnover was 119 days for 1H 2014, which was lower than 128 days for 1H 2013.

Trade payables recorded a decrease from RMB16.0 million as of 31 December 2013 to RMB11.1 million as of 30 June 2014. Trade payables turnover was 13 days for 1H 2014, which was comparable to 15 days for 1H 2013.

**Liquidity and Financial Resources**

As of 30 June 2014, our Group was in a net cash position. Our Group had cash and cash equivalents of RMB465.0 million (31 December 2013: RMB260.1 million) and bank borrowings of RMB37.7 million (31 December 2013: RMB76.9 million). Our Group's gearing ratio further decreased from 20.7% as at 31 December 2013 to 4.5% as at 30 June 2014, resulting from the larger equity balances arising from the successful listing of the Company in January 2014.

For 1H 2014, our Group recorded a strong cash inflow from operating activities of RMB60.7 million (1H 2013: RMB108.7 million). Net cash used in investing activities was RMB96.2 for 1H 2014 (1H 2013: RMB51.5 million). It mainly represented the deposit paid for the purchase of design center in Shanghai of RMB40.3 million and the placement of fixed deposits of RMB47.7 million.

Net cash generated from financing activities for 1H 2014 was RMB240.0 million, representing the net proceeds from the global offering received by the Company minus the major cash outflows items of dividends payment and net repayments of bank loan (1H 2013: RMB118.6 million).

***Notes to financial ratios***

*(1) 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 period and multiplied by 182 days*

*(2) Trade receivables turnover days equal to the average of the opening and closing balances of trade receivables of the relevant period divided by turnover of the relevant period and multiplied by 182 days*

*(3) Trade payables turnover days equal to the average of the opening and closing balances of trade payables of the relevant period divided by cost of sales of the relevant period and multiplied by 182 days*

*(4) Current ratio equals to current assets divided by current liabilities as of the end of the period*

*(5) Gearing ratio equals to total of bank and other borrowings divided by total equity as of the end of the period*

**Capital Commitments and Contingent Liabilities**

Our Group had capital commitments of RMB31.8 million for the acquisition of property, plant and equipment, which were contracted but not provided for, as of 30 June 2014. (31 December 2013: RMB67.3 million).

Our Group had no material contingent liabilities as of 30 June 2014.

**Pledge of Assets**

Bank deposits, certain properties and lease prepayments with total carrying amount of RMB11.0 million as of 30 June 2014 (31 December: RMB11.5 million) were pledged for the banking facilities.

## USE OF PROCEEDS

The Company was successfully listed on the Stock Exchange on 15 January 2014. The total net proceeds from the global offering and over-allotment (the "Net Proceeds") of a total 184,000,000 new shares allotted and issued at the offering price of HK$2.28 per share, after deducting the underwriting commissions and other listing expenses, amounted to approximately HK$362.0 million (equivalent to RMB285.0 million).

As of 30 June 2014, our Group has utilized the Net Proceeds as set out below:

| | **Percentage to the Net Proceeds** | **Net Proceeds** | **Utilised amount** | **Unutilised amount** |
|---|---|---|---|---|
| | | *RMB'million* | *RMB'million* | *RMB'million* |
| Establish self-operated retail outlets | 32.1% | 91.5 | — | 91.5 |
| Enhance design and research and development capabilities in our design center in Shanghai | 26.9% | 76.7 | — | 76.7 |
| Recruit at least 30 additional design and research and development staff | 4.2% | 12.0 | 0.3 | 11.7 |
| Joint programs with established universities in the PRC and international corporations | 6.5% | 18.5 | — | 18.5 |
| Establish an ERP system | 20.3% | 57.9 | — | 57.9 |
| Marketing and promotional activities | 5.0% | 14.2 | 6.1 | 8.1 |
| Working capital and general corporate purposes | 5.0% | 14.2 | 14.2 | — |
| | 100.0% | 285.0 | 20.6 | 264.4 |

The unutilised Net Proceeds have been placed in short-term deposits with licensed banking institutions in Hong Kong and China.

## EMPLOYEES AND REMUNERATION POLICIES

The total number of full-time employees of our Group as of 30 June 2014 was around 680. The total staff costs for 1H 2014 was approximately RMB21.9 million, as compared to RMB13.0 million for 1H 2013.

The emolument policy of the Group is aimed at attracting, retaining and motivating talent individuals. Monthly salary and annual performance related bonus for each employee is generally determined based on his or her job nature and position with reference to market standards. Our emolument policy will be adjusted depending on a number of factors, including changes to the market practice and stages of our business development, so as to achieve our operational targets. Pre-IPO share options have been granted to employees of our Group to reward their contributions and also to motivate them to optimize their performance and efficiency. Further details of the Pre-IPO share options are set out in the Company's 2014 interim report.

## INTERIM DIVIDEND

The Board resolved to declare an interim dividend of HK2 cents per ordinary share, representing a payout ratio of approximately 30.0% of profit attributable to equity shareholders for 1H 2014. The interim dividend will be paid on or around Friday, 19 September 2014.

## CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlements to the interim dividend, the register of members will be closed from Monday, 8 September 2014 to Wednesday, 10 September 2014 (both days inclusive) during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificate must be lodged with the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 5 September 2014 for registration.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Shares of the Company were listed on the Stock Exchange on 15 January 2014 (the "Listing Date"). Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date to 30 June 2014.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance and has steered its development and protected the interests of its shareholders in an enlightened and open manner. Currently, the Board comprises four executive Directors and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code ("Code Provisions") set out in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange. Throughout the period since the Listing Date and up to the date of this announcement, the Company has complied with the Code Provisions, 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.

As Mr. Ding Peiji ("Mr. Ding") is both the chief executive officer and the chairman of the Board of the Company, the Company is in deviation from code provision A.2.1. We consider that vesting the role of both chairman and chief executive officer in the same person in Mr. Ding has the benefit of ensuing 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.

## AUDIT COMMITTEE

The Company has an audit committee (the "Audit Committee") which was established in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee, comprising Mr. Leung Wai Yip (Chairman), Mr. Mei Wenjue, and Mr. Zhu Wenxin, has reviewed our unaudited consolidated financial statements for 1H 2014 and the accounting principles and practices adopted, and discussed auditing, internal controls, and financial reporting matters with our management and our Company's external auditors.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Directors have adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in dealing in the Company's securities. Specific enquiries have been made to all Directors and all Directors have confirmed that they have fully complied with the required standard of dealings as set out in the Model Code since the Listing Date and up to the date of this announcement.

## SUFFICIENCY PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirmed that the Company has maintained the public float as required under the Listing Rules throughout the six months ended 30 June 2014.

## PUBLICATION OF RESULTS

This interim results announcement has been published on our website at www.redkids.com and the website of the Stock Exchange at www.hkexnews.hk. The interim report of our Company for 1H 2014 containing all the information required by Appendix 16 to the Listing Rules and the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) will be dispatched to the shareholders of our Company and published on our website at www.redkids.com and the website of the Stock Exchange at www.hkexnews.hk in due course.

## APPRECIATION

The Board would like to take this opportunity to express its gratitude to all shareholders of our Company, customers, suppliers, banks, professional parties and employees of our Group for their continuous support.

By order of the Board
**Miko International Holdings Limited**
**Ding Peiji**
*Chairman*

Hong Kong, 20 August 2014

As at the date of this announcement, the Directors are:

| | |
|---|---|
| *Executive Directors:* | *Mr. Ding Peiji, Mr. Ding Peiyuan, Ms. Ding Lizhen, Mr. Gu Jishi* |
| *Independent non-executive Directors:* | *Mr. Leung Wai Yip, Mr. Mei Wenjue, Mr. Zhu Wenxin* |