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 RESULTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

FINANCIAL HIGHLIGHTS

	2014 *RMB'000*	2013 *RMB'000*	*% Change*
Turnover	**795,699**	661,416	+20.3%
Gross Profit	**300,332**	260,086	+15.5%
Profit for the year attributable to shareholders of the Company*	**137,914**	129,613	+6.4%
Earnings per share *(RMB cents)*			
— Basic	**17**	20	
— Diluted	**17**	20	
Gross Profit Margin	**37.7%**	39.3%	
Net Profit Margin	**17.3%**	19.6%	

* *After deducting the one-off listing expenses of RMB12.6 million (FY2013: RMB12.5 million).*

The Board has recommended the declaration of a final dividend of HK2 cents per ordinary share of the Company for the year ended 31 December 2014.

ANNUAL RESULTS

The board (the "Board") of directors ("Directors") of Miko International Holdings Limited (the "Company") is pleased to announce the consolidated results of our Company and its subsidiaries (the "Group") for the financial year ended 31 December 2014 (the "FY2014"), as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	**2014** *RMB'000*	2013 *RMB'000*
Turnover	*3*	**795,699**	661,416
Cost of sales		**(495,367)**	(401,330)
Gross profit		**300,332**	260,086
Other revenue	*4*	**2,865**	2,051
Other net loss	*4*	**(1,578)**	(1,368)
Selling and distribution expenses		**(57,935)**	(47,002)
Administrative and other operating expenses		**(46,956)**	(32,260)
Profit from operations		**196,728**	181,507
Finance costs		**(3,409)**	(4,326)
Profit before taxation	*5*	**193,319**	177,181
Income tax	*6*	**(55,405)**	(47,568)
Profit for the year attributable to shareholders of the Company		**137,914**	129,613
Other comprehensive income for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial information of operations outside mainland China		**629**	4,030
Total comprehensive income for the year attributable to shareholders of the Company		**138,543**	133,643
Earnings per share *(RMB cents)*			
— basic	*7(a)*	**17**	20
— diluted	*7(b)*	**17**	20

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
Non-current assets			
Property, plant and equipment		**56,022**	38,047
Construction in progress		**—**	974
Intangible assets		**490**	535
Lease prepayments		**2,941**	3,029
Deposits for purchase of a property		**92,000**	51,750
Deposits for purchase of an intangible asset		**3,300**	—
Deferred tax assets		**2,843**	2,105
		157,596	96,440
Current assets			
Inventories	8	**41,783**	38,761
Trade and other receivables	9	**333,226**	257,458
Fixed deposits at banks with original maturity over three months		**52,680**	—
Pledged bank deposits		**2,000**	—
Cash and cash equivalents		**432,384**	260,079
		862,073	556,298
Current liabilities			
Bank loans	10	**37,700**	76,890
Trade and other payables	11	**38,865**	188,573
Current tax payable		**16,643**	15,953
		93,208	281,416
Net current assets		**768,865**	274,882
Total assets less current liabilities		**926,461**	371,322
Non-current liabilities			
Deferred tax liabilities		**1,300**	—
NET ASSETS		**925,161**	371,322
EQUITY			
Share capital	12	**6,483**	8
Reserves		**918,678**	371,314
TOTAL EQUITY		**925,161**	371,322

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by International Accounting Standards Board ("IASB"). These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2014 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that derivative financial instruments are stated at their fair value.

The consolidated financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand. RMB is the functional currency for the Company's subsidiaries established in mainland China. The functional currency of the Company and the Company's subsidiaries outside mainland China are Hong Kong Dollars ("HK$").

The preparation of financial statements in conformity with IFRSs requires management to make judgements, 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 judgements 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 recognised 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.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

(c) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs and one Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, one new amendment 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 these financial statements 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.

(d) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial statements 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, manufacture and sales of children's apparel products in the PRC. Accordingly, no segmental analysis is presented.

2 ACCOUNTING JUDGEMENT AND ESTIMATES

Estimates and judgements 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 judgements 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 statements. The principal accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(a) Net realisable value of inventories

Net realisable 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 judgements. 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.

(c) Provision for deferred tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The management evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

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.

The Group's revenue by geographical location is determined by the destination to which the goods are delivered.

	2014	2013
	RMB'000	*RMB'000*
PRC	**795,699**	660,781
Overseas	**—**	635
	795,699	661,416

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

	2014	2013
	RMB'000	*RMB'000*
Customer A	**162,078**	122,950
Customer B	**89,641**	70,545

4 OTHER REVENUE AND OTHER NET LOSS

	2014	2013
	RMB'000	*RMB'000*
Other revenue		
Interest income	**1,794**	834
Government grants	**846**	615
Others	**225**	602
	2,865	2,051
Other net loss		
Net foreign exchange loss	**985**	1,368
Change in fair value of a foreign exchange forward contract	**593**	—
	1,578	1,368

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2014 *RMB'000*	2013 *RMB'000*
(a) Finance costs:		
Interest on bank loans	**3,409**	4,326
(b) Staff costs:		
Contributions to defined contribution retirement plans	**1,908**	304
Salaries, wages and other benefits	**46,509**	30,605
Equity-settled share-based payment expenses	**3,436**	—
	51,853	30,909
(c) Other items:		
Amortisation		
— lease prepayments	**88**	88
— intangible assets	**50**	14
Depreciation	**3,172**	3,044
Auditors' remuneration	**2,450**	1,228
Operating lease charges in respect of properties	**1,704**	995
Research and development expenses	**4,533**	5,828
Cost of inventories sold#	**495,367**	401,330

Cost of inventories sold for the year ended 31 December 2014 includes RMB28,012,000 (2013: RMB18,977,000) relating to staff costs and depreciation, which amount is also 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 IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Income tax in the consolidated statement of profit or loss and other comprehensive income represents:

	2014	2013
	RMB'000	*RMB'000*
Current tax		
PRC corporate income tax	**54,843**	46,705
Deferred tax		
Origination of temporary differences	**562**	863
	55,405	47,568

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2014	2013
	RMB'000	*RMB'000*
Profit before taxation	**193,319**	177,181
Notional tax on profit before taxation, calculated at the standard tax rates applicable to the respective tax jurisdictions	**52,974**	46,445
Tax effect of non-deductible expenses	**85**	605
Tax effect of unused tax losses not recognised	**1,046**	518
Withholding tax effect of undistributed profits retained by PRC subsidiaries *(note (iv))*	**1,300**	—
Actual tax expense	**55,405**	47,568

(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 in 2013 and 2014.

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

(iv) 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. A rate of 10% is applicable to the calculation of the PRC dividend with holding tax of the Group. Deferred tax liabilities have been provided for based on the expected dividends to be distributed from the Group's PRC subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the year of RMB137,914,000 (2013: RMB129,613,000) and the weighted average of 816,482,000 ordinary shares (2013: 640,000,000 shares, comprising 1,000,000 ordinary shares as at 31 December 2013 and 639,000,000 ordinary shares issued pursuant to the capitalisation issue as if the shares were outstanding throughout 2013).

Weighted average number of ordinary shares

	2014	2013
	'000	*'000*
Issued ordinary shares at 1 January	**640,000**	1,000
Effect of capitalisation issue	**—**	639,000
Effect of shares issued by global offering	**176,482**	—
	816,482	640,000

(b) Diluted earnings per share

The effect of the Company's share options was anti-dilutive for the year ended 31 December 2014, and therefore, diluted earnings per share are the same as the basic earnings per share. During the year ended 31 December 2013, the calculation of diluted earnings per share is based on the profit for the year of RMB129,613,000 and the weighted average number of ordinary shares of 640,019,000 shares, which is calculated after taking into account of the effect of deemed issue of shares under the Company's share option scheme.

8 INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	2014	2013
	RMB'000	*RMB'000*
Raw materials	**5,705**	4,413
Work in progress	**4,957**	4,757
Finished goods	**31,121**	29,591
	41,783	38,761

9 TRADE AND OTHER RECEIVABLES

	2014	2013
	RMB'000	*RMB'000*
Trade receivables		
— third parties	**283,201**	230,931
— related parties	**8,542**	4,958
Trade receivables	**291,743**	235,889
Prepayments to suppliers	**40,802**	18,255
Other deposits, prepayments and receivables	**681**	3,314
	333,226	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.

Trade receivables from related parties are subject to normal commercial terms.

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

	2014	2013
	RMB'000	*RMB'000*
Within 3 months	**291,743**	235,729
After 3 months but within 6 months	**—**	160
	291,743	235,889

As at 31 December 2014, no trade receivables were past due. As at 31 December 2013, trade receivables not past due amounted to RMB235,729,000 and amount past due amounted to RMB160,000. Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

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. For the years ended 31 December 2014 and 2013, the Group did not record any impairment losses in respect of trade receivables.

10 BANK LOANS

As of the end of the reporting period, the bank loans of the Group were repayable within one year or on demand as follows:

	2014	2013
	RMB'000	*RMB'000*
Bank loans		
— secured	**26,700**	28,000
— unsecured	**11,000**	48,890
	37,700	76,890

Assets of the Group pledged to secure the bank loans comprise:

	2014	2013
	RMB'000	*RMB'000*
Buildings held for own use	**8,748**	9,598
Lease prepayments	**1,843**	1,898
	10,591	11,496

Secured bank loans of RMB9,700,000 as at 31 December 2014 (2013: nil) were guaranteed by Mr. Ding Peiji (the director of the Company) and a third party.

11 TRADE AND OTHER PAYABLES

	2014	2013
	RMB'000	*RMB'000*
Trade payables	**16,733**	16,036
Receipts in advance	**952**	104
Amount due to a related party	**—**	144,855
Other payables and accruals	**20,587**	27,578
Derivative financial liabilities		
— foreign exchange forward contract	**593**	—
	38,865	188,573

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

	2014	2013
	RMB'000	*RMB'000*
Within 3 months	**16,236**	16,036
After 3 months but within 6 months	**497**	—
	16,733	16,036

12 SHARE CAPITAL

(i) Authorised and issued share capital

	2014			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	**639,000,000**	**6,390**	**5,027**	—	—	—
Shares issued by global offering	**184,000,000**	**1,840**	**1,448**	—	—	—
At 31 December	**824,000,000**	**8,240**	**6,483**	1,000,000	10	8

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(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 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).

(iv) Terms of unexpired and unexercised share options at the end of the reporting period

Exercise period	Exercise price	**2014** **Number**	2013 Number
15 January 2015 to 14 January 2022	HK$1.824	**1,905,000**	2,100,000
15 January 2016 to 14 January 2022	HK$1.824	**1,905,000**	2,100,000
15 January 2017 to 14 January 2022	HK$1.824	**2,540,000**	2,800,000
		6,350,000	7,000,000

Each option entitles the holder to subscribe for one ordinary share in the Company.

13 DIVIDENDS

(i) Dividends payable to shareholders of the Company attributable to the year:

	2014	2013
	RMB'000	*RMB'000*
Interim dividend declared and paid of HK2 cents per ordinary share (2013: nil)	**13,067**	—
Final dividend proposed after the end of the reporting period of HK2 cents per ordinary share (2013: nil)	**13,002**	—
Special dividend proposed after the end of the reporting period per ordinary share (2013: HK5 cents per ordinary share)	**—**	32,791
	26,069	32,791

The final dividend and special dividend proposed after the end of the reporting period have not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to shareholders of the Company attributable to the previous year, approved and paid during the year:

	2014	2013
	RMB'000	*RMB'000*
Special dividend in respect of the previous financial year, approved and paid during the year, of HK5 cents per ordinary share (2013: nil)	**32,791**	—
	32,791	—

CHAIRMAN'S STATEMENT

For the year ended 31 December 2014, our turnover increased by approximately 20.3% from RMB661.4 million for the corresponding period of last year to a record high of about RMB795.7 million. Our total sales volume was 12.6 million units in 2014, representing an increase of approximately 18.9% from 10.6 million units in 2013. The average wholesale price of our products in 2014 also registered a single-digit growth compared to that in 2013.

In 2014, net profit of our Group amounted to RMB137.9 million (2013: RMB129.6 million). Excluding the one-off listing expense of RMB12.6 million that was already deducted, adjusted net profit was RMB150.5 million.

The Board has recommended the declaration of a final dividend of HK$0.02 for the year ended 31 December 2014, if approved, shall amount to a total of HK$0.04 together with the interim dividend of HK$0.02 distributed in September 2014.

Although growth in China's economy slowed in 2014, the children's apparel market was still in its rapid development stage with the compound annual growth rate of sales across the industry at over 20% last year. The growth was mainly because: (i) the relaxation of the one-child policy ushered in new opportunities for the rapid development of the children's apparel industry; (ii) changes in consumer mentality and values following the shift of major consumer base to the post-80s and 90s generations who are more willing to consume and possess much higher consuming power than the post-70s. Against this backdrop, the Company successfully achieved its predetermined targets and saw a year-on-year increase of over 20% in revenue for FY2014.

In 2014, we put more effort into product innovation. We launched the Elegant Little Girl series which was embellished with lace and embroidery details and used the popular macaroon colours to breathe life into the personalised, quality and safe children's apparels. Brand characteristics were manifested through the perfect combination of fashion and comfort embodied in the series. In the fourth quarter of 2014, we rolled out apparels for infants of 0–3 years old to enrich the product offerings of our "redkids" brand and further consolidated of our leading position in China's mid-to-high end children's apparel market, providing sustainable profitability for the businesses of our distributors. Meanwhile, our Group will also consider acquiring other brands when suitable opportunities arise to realise our multi-brand strategies.

While enhancing product innovation, we launched proactive and effective brand promotion campaigns on the Internet. The Internet-oriented initiatives further improved our brand value, strengthened our significant presence in our target markets and effectively promoted the new generation consumers' desire to purchase. By making use of both We Media (such as Weibo and WeChat) and traditional media and interacting with our VIP customers through various channels, consumers have become more loyal to our "redkids" brand.

Undoubtedly, we fully recognise the importance of the Internet in future business operations and have made prompt and effective arrangements in this regard. In 2014, sales to the on-line distributor already accounted for more than 20% of the Group's total revenue.

We place great emphasis on consumers' shopping experience. In 2014, we finished revamping the image of approximately 100 retail stores. Meanwhile, in order to achieve the Group's target of continual results growth, we optimised the structure of our retail channels, and opened flagship stores in second-tier cities and to open retail store in third- and fourth tier cities. We have also established a stricter requirement for the opening of new stores. Through the implementation of effective measures including the adjustment of our channel structure and expansion of business areas of existing stores, the survival rate of retail stores has increased.

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

	As at 31 December	
	2014	2013
Shopping mall outlets and concessions	**282**	284
Street shops	**344**	317
	626	601

	As at 31 December	
	2014	2013
First-tier cities *Note 1*	**84**	94
Second-tier cities *Note 1*	**72**	74
Third-tier cities *Note 1*	**69**	48
Fourth-tier cities *Note 1*	**401**	385
	626	601

Note 1:

First-tier cities:	Beijing, Shanghai, Guangzhou and Shenzhen
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
Third-tier cities:	Prefecture-level cities in the PRC, excluding any first- and second- tier cities
Fourth-tier cities:	Country-level and other townships-level cities

In relation to retail operations, we have worked closely with our distributors to boost store performance continuously by enhancing sales supervision. Through the combination of our accurate analysis of distributors' operation data with the industry trend to provide distributors with precise order guidance in sales fairs, we have achieved continuous and healthy growth in future orders and effectively reined in distributors' inventory risks. This move also enables us to cater to the needs of consumers in the market more accurately.

Looking ahead, we remain confident that we can seize the opportunities brought about by the favourable factors such as the steady development of China's economy, progressive relaxation of the one-child policy and upgrade of consumer base to realise healthy, continual and rapid business growth. Lastly, on behalf of the Board, I would like to thank our shareholders for their continuous support and all our dedicated staff for their hard work. We will, as always, hold on to the orientation of brand retail and form a value community with our distributors and suppliers in order to maintain a sustainable and stable development momentum and create higher value for our shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Turnover

Our turnover reached historical high for FY2014. It increased by approximately 20.3%, from RMB661.4 million for the year ended 31 December 2013 (the "FY2013") to RMB795.7 million for FY2014. Leveraged by our differentiated value-for-money products and the further enhancement of brand recognition of our products, sales volume and average wholesale price of our products for FY2014 recorded an increase by approximately 18.9% and 1.6%, respectively, as compared to that for the same period last year.

Sales of apparel products, primarily for children from 3 to 12 years of age, have accounted for substantially all of our turnovers for both FY2013 and FY2014. In order to provide comprehensive and all-round products, we have optimized our products mix by launching the Footwear and Accessories series in the first quarter of 2015. Meanwhile, we have also launched the Infant Apparel series with the aim to capture the business opportunities of the tremendous demand of high potential infant apparel driven by the progressive relaxation of the one-child policy in China.

The table below sets forth sales volume and average wholesale price for the year indicated:

	FY2014	FY2013	% change
Sales volume *(million units)*	**12.6**	10.6	+ 18.9
Average wholesale price *(RMB)*	**63**	62	+ 1.6

The table below sets forth our revenue by product/service category for the year indicated:

	FY2014		FY2013		% change
	RMB'000	*%*	*RMB'000*	*%*	
Apparel	**795,278**	**99.9**	660,781	99.9	+ 20.4
OEM services	**421**	**0.1**	635	0.1	– 33.7
	795,699	**100.0**	661,416	100.0	+ 20.3

We primarily market our products through the extensive retail network with over 600 retail outlets covering most of the provinces and municipalities in China operated by our distributors and sub-distributors. On the other hand, we capture the business opportunities from online shopping in China through collaboration with our designated on-line distributor who resells our products through different online sales platforms in China.

During FY2014, our designated on-line distributor was the single largest customer which accounted for approximately 20.4% (FY2013: 18.6%) of our total revenue. Sales to top five customers, which comprised the designated on-line distributor and four other distributors, in aggregate accounted for approximately 52.8% (FY2013: 49.5%) of our total revenue.

The table below sets forth our revenue by sales channel for the year indicated:

	FY2014 *RMB'000*	*%*	FY2013 *RMB'000*	*%*	% change
Sales to distributors	**632,723**	**79.5**	537,576	81.3	+ 17.7
Sales to on-line distributor	**162,078**	**20.4**	122,950	18.6	+ 31.8
Sales from self-operated store*	**477**	**0.05**	255	0.01	+ 87.1
OEM services	**421**	**0.05**	635	0.09	– 33.7
	795,699	**100.0**	661,416	100.0	+ 20.3

* *It represented the sales from the self-operated store in Fujian province.*

Cost of Sales

Our cost of sales increased by RMB94.1 million or approximately 23.4%, from RMB401.3 million for FY2013 to RMB495.4 million for FY2014. The increase was generally in line with the increase in turnover. During FY2014, we continued to outsource the production of products which require special technologies and know-how to OEM factories. As a percentage of cost of sales, purchase from OEM factories accounted for approximately 71.1% for FY2014 as compared to that of approximately 73.7% for FY2013.

Gross Profit and Gross Profit Margin

Our gross profit increased by RMB40.2 million or approximately 15.5%, from RMB260.1 million for FY2013 to RMB300.3 million for FY2014. On the contrary, gross profit margin slightly decreased by nearly two percentage points, from 39.3% for FY2013 to 37.7% for FY2014, mainly as a result of our moderate increase in average wholesale price by a low single digit amidst the intense competition in children apparel industry in China.

Other Revenue and Other Net Loss

Other revenue primarily consisted of interest income from bank deposits of RMB1.8 million (FY2013: RMB0.8 million) and government grants of RMB0.8 million (FY2013: RMB0.6 million).

Other net loss represented the net foreign exchange loss of RMB1.0 million (FY2013: RMB1.4 million) and the change in fair value of a foreign exchange forward contract of RMB0.6 million (FY2013: Nil).

Selling and Distribution Expenses

Selling and distribution expenses primarily consisted of marketing rebates, salaries and benefits for sales and marketing personnel, and advertising and exhibition expenses for outdoor advertisements. Selling and distribution expenses recorded an increase of approximately 23.2%, from RMB47.0 million for FY2013 to RMB57.9 million for FY2014. The increase was generally in line with the increase in turnover.

As a percentage of turnover, selling and distribution expenses were 7.3% for FY2014, which was comparable to 7.1% for FY2013.

Administrative and Other Operating Expenses

Administrative and other operating expenses primarily consisted of research and development, salaries and benefits for administrative personnel, professional expenses in relation to legal and financial advisory services, taxes and levies, and listing expenses.

Administrative and other operating expenses were RMB47.0 million for FY2014, representing an increase of RMB14.7 million or approximately 45.5% as compared to RMB32.3 million for FY2013. The increase in administrative and other operating expenses mainly reflected the increase in staff costs and operating expenses for our design center in Shanghai.

As a percentage of turnover, administrative and other operating expenses also increased from 4.9% for FY2013 to 5.9% for FY2014.

Finance Costs

As a result of the decrease in short-term bank borrowings, finance costs decreased by RMB0.9 million, from RMB4.3 million for FY2013 to RMB3.4 million for FY2014.

Income Tax

Income tax increased from RMB47.6 million for FY2013 to RMB55.4 million for FY2014. The effective tax rate was 28.7% for FY2014, which was comparable to 26.8% for FY2013. Currently, our principal subsidiaries in China are subject to an enterprise income tax rate of 25.0%.

Profit for the Year

As a result of the foregoing, profit for the year increased from RMB129.6 million for FY2013 to RMB137.9 million for FY2014. On the contrary, net profit margin recorded a decrease of approximately two percentage points, from 19.6% for FY2013 to 17.3% for FY2014.

Working Capital Management

We possess sufficient cash to meet liquidity requirements and for strategic alliances and acquisitions, if any. As of 31 December 2014, our cash and cash equivalents, and bank deposits totaled RMB487.1 million (31 December 2013: RMB260.1 million), representing more than half of the total amount of our current assets.

Current ratio and quick ratio were 9.2 times and 8.8 times, respectively, as of 31 December 2014, as compared to 2.0 times and 1.8 times, respectively, as of 31 December 2013. The sharp increase in current ratio and quick ratio was mainly due to the cash inflow from the net proceeds from the listing of the Company's shares on the Main Board of the Stock Exchange in January 2014.

Inventories

Our inventories increased by RMB3.0 million, from RMB38.8 million as of 31 December 2013 to RMB41.8 million as of 31 December 2014, primarily as a result of an increase in our 2015 Spring and Summer collections products which were scheduled to be delivered to distributors in early 2015. Inventories mainly comprised raw materials of RMB5.7 million (31 December 2013: RMB4.4 million), work in progress of RMB5.0 million (31 December 2013: RMB4.8 million) and finished goods of RMB31.1 million (31 December 2013: RMB29.6 million). The inventory turnover was 29.7 days for FY2014 (FY2013: 30.3 days).

Trade Receivables

Trade receivables increased by RMB55.8 million, from RMB235.9 million as of 31 December 2013 to RMB291.7 million as of 31 December 2014.

Trade receivables turnover was 121.0 days for FY2014, which was comparable to 120.8 days for FY2013. As of 31 December 2014, all trade receivables were due within 3 months, which was in line with the credit period of 90 days given to our distributors and on-line distributor. We continue to conduct comprehensive review of our distributors' repayment histories, resources and financial capabilities to ensure that they are able to repay the debt within the credit period.

Trade Payables

Trade payables slightly increased from RMB16.0 million as of 31 December 2013 to RMB16.7 million as of 31 December 2014. Trade payables turnover was 12.1 days for FY 2014 (FY2013: 12.3 days).

Liquidity and Financial Resources

We utilized a combination of cash flows generated from operation and the net proceeds from the listing of the Company's shares on the Main Board of the Stock Exchange in January 2014 to finance our working capital requirements and capital expenditures, and to repay bank borrowings.

The following table sets forth our cash flows for FY2014 and FY2013

	FY2014	FY2013
	RMB'000	*RMB'000*
Net cash generated from operating activities	**64,636**	179,190
Net cash used in investing activities	**(116,614)**	(52,701)
Net cash generated from financing activities	**224,202**	124,703
Net increase in cash and cash equivalents	**172,224**	251,192
Cash and cash equivalents at 1 January	**260,079**	8,894
Effect of foreign exchange rate changes	**81**	(7)
Cash and cash equivalents at 31 December	**432,384**	260,079

We were in net cash position as of 31 December 2014, and our gearing ratio was only 4.1% as of 31 December 2014 (31 December 2013: 20.7%).

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 year and multiplied by 365 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 year and multiplied by 365 days

(3) Trade payables turnover days equal to the average of the opening and closing balances of trade payables of the relevant year divided by cost of sales of the relevant year and multiplied by 365 days

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

(5) Quick ratio equals to current assets less inventories divided by current liabilities as of the end of the year

(6) Gearing ratio equals to total of bank and other borrowings divided by total equity as of the end of the year

Treasury Policy and Market Risks

We have a treasury policy that aims to better control our treasury operations and lower borrowing cost. Our treasury policy requires our Group to maintain an adequate level of cash and cash equivalents, and sufficient available banking facilities to finance our daily operations and to address short term funding needs. We review and evaluate our treasury policy from time to time to ensure its adequate and effectiveness.

Our interest rate risk arises primarily from bank borrowings. As our Group's operations are mainly conducted in China and the majority of our Group's assets and liabilities, and sales and purchases are transacted in Renminbi, the Directors are of the view that our Group are not subject to significant foreign exchange rate risks.

Capital Commitments

As of 31 December 2014, capital expenditure contracted but not provided for was approximately RMB24.5 million (31 December 2013: RMB67.3 million).

Contingent Liabilities

Our Group did not have any significant contingent liabilities as of 31 December 2014 and 2013.

Pledge of Assets

As of 31 December 2014, pledged bank deposits, certain properties and lease prepayments totalled RMB10.6 million (31 December 2013: RMB11.5 million) were pledged for certain bank loans.

Significant Investments and Material Acquisitions and Disposals of Subsidiaries

Our Group did not have any significant investments or acquisitions or sales of subsidiaries during FY2013 and FY2014. Our Group will continue to seek opportunities to increase its portfolio of brands through strategic acquisitions or alliances in order to generate more returns to shareholders.

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 31 December 2014, our Group has utilized the Net Proceeds as set out below:

	Percentage to the Net Proceeds	Net Proceeds *RMB'million*	Utilized amount *RMB'million*	Unutilized amount *(Note 2)* *RMB'million*
Establish self-operated retail stores *(Note 1)*	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	0.7	11.3
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	3.3	54.6
Marketing and promotional activities	5.0%	14.2	14.2	—
Working capital and general corporate purposes	5.0%	14.2	14.2	—
	100.0%	285.0	32.4	252.6

Notes:

(1) The establishment of 10 self-operated retail stores are being processed at the date of this announcement. It is expected that these self-operated retail stores will commence their businesses by the end of June 2015. Initial set up cost and working capital requirements for establishing each of the self-operated retail stores are expected to be approximately RMB0.8 million to RMB1.0 million.

(2) The unutilized net proceeds have been placed in short-term deposits with licensed banking institutions in Hong Kong and China.

Employees and Remuneration Policies

The emolument policy of the Group is aimed at attracting, retaining and motivating talent individuals. The principle is to have performance based remuneration which reflects market standards. Remuneration package 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. As at 31 December 2014, we employed around 700 full-time employees. The total staff costs for FY2014 was approximately RMB51.9 million (FY2013: RMB30.9 million).

Subsequent Events

(i) After the end of the reporting period, the Directors recommended the declaration of a final dividend of HK2 cents per ordinary share of the Company.

(ii) On June 13, 2013, Red Kids (China) Co., Ltd. (紅孩兒（中國）有限公司) ("Red Kids China"), an indirect wholly owned subsidiary of our Group, entered into a pre-purchase agreement ("Pre-purchase Agreement") with Shanghai Fashitu Investment Group Limited (上海法詩圖投資集團

有限公司) ("Shanghai Fashitu"), an independent third party, pursuant to which Red Kids China agreed to acquire from Shanghai Fashitu a building ("Building No.18") under construction situated at Shangzhifang Fashion Culture Creative Park, No. 6066, Songze Avenue, Qingpu District, Shanghai (the "Shangzhifang Fashion Culture Creative Park") with a gross floor area of 10,709.6 sq.m.. Red Kids China has paid a total of RMB92.0 million (the "Advance Payments") towards the total consideration payable under the Pre-purchase Agreement as at 31 December 2014 and the date of this announcement.

Our Group was informed by Shanghai Fashitu that as the construction of Building No.18 has fallen behind the original schedule, delivery of Building No.18 is expected to be postponed significantly. In order not to cause further delay to our plan to set up a research and development centre in Shanghai, and given that a nearby building ("Building No.7") in Shangzhifang Fashion Culture Creative Park is readily available, after negotiation between the parties, the Group agreed to take delivery of Building No.7 instead of waiting for the completion of construction of Building No.18.

On 18 March 2015, Red Kids China entered into another agreement with Shanghai Fashitu in respect of the acquisition of Building No.7 at a consideration of RMB59.2 million and prepaid RMB1.0 million for the acquisition. The remaining consideration of RMB58.2 million shall be satisfied by setting off against the Advance Payments, and the balance of the Advance Payments in the amount of RMB33.8 million shall be refunded to Red Kids China in two tranches in the following manner: (i) RMB20.0 million by 30 April 2015, and (ii) the remaining balance of RMB13.8 million when the formal agreement for the registration of transfer of property title of Building No. 7 is signed.

For further details, please refer to the separate announcement of the Company dated 18 March 2015.

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 for the period from the Listing Date to 31 December 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. 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.

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.

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 consolidated financial statements for FY2014 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.

DIVIDEND

The Board has recommended the declaration of a final dividend of HK2 cents per ordinary share for FY2014 (FY2013: Special dividend of HK5 cents) to the shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 28 May 2015. The final dividend, which is expected to be paid on or before Wednesday, 10 June 2015, is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on Thursday, 21 May 2015 (the "AGM").

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods:

(i) from Tuesday, 19 May 2015 to Thursday, 21 May 2015, both days inclusive, for the purpose of determining entitlement to attend the AGM, during which period no transfer of shares of our Company will be registered. In order to qualify for attending and voting at the AGM, shareholders of our Company must ensure that all transfer documents accompanied by the relevant share certificates must be lodged with our Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Monday, 18 May 2015.

(ii) from Friday, 29 May 2015 to Monday, 1 June 2015, both days inclusive, for the purpose of determining entitlement to the proposed final dividend of the Company, during which period no transfer of shares of our Company will be registered. In order to qualify for the dividend, shareholders of our Company must ensure that all transfer documents accompanied by the relevant share certificates must be lodged with our Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Thursday, 28 May 2015.

Notice of the AGM will be published on our website at www.redkids.com and on the website of the Stock Exchange at www.hkexnews.hk, and dispatched to the shareholders of our Company in due course.

PUBLICATION OF RESULTS

This announcement of results has been published on our website at www.redkids.com and the website of the Stock Exchange at www.hkexnews.hk. The annual report of our Company for FY2014 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 18 March 2015

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