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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 2016

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		Change
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)	
Revenue	149,702	290,000	(48.4)%
Gross profit	54,311	104,440	(48.0)%
Profit from operations	12,082	74,458	(83.8)%
Profit for the period attributable to shareholders of the Company	1,181	53,348	(97.8)%
Basic and diluted earnings per share (<i>RMB cents</i>)	0.1	6.5	
Gross profit margin	36.3%	36.0%	
Operating profit margin	8.1%	25.7%	
Net profit margin	0.8%	18.4%	

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Miko International Holdings Limited (the “**Company**”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2016 together with the comparative figures for the corresponding period of last year.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Six months ended 30 June	
		2016	2015
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	4	149,702	290,000
Cost of sales		<u>(95,391)</u>	<u>(185,560)</u>
Gross profit		54,311	104,440
Other revenue	6	3,594	6,461
Other net (loss)/gain	6	(610)	579
Selling and distribution expenses		(31,136)	(23,140)
Administrative and other operating expenses		<u>(14,077)</u>	<u>(13,882)</u>
Profit from operations		12,082	74,458
Finance costs	7(a)	<u>(1,432)</u>	<u>(1,503)</u>
Profit before taxation	7	10,650	72,955
Income tax	8	<u>(9,469)</u>	<u>(19,607)</u>
Profit for the period attributable to shareholders of the Company		1,181	53,348
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		<u>(166)</u>	<u>11</u>
Total comprehensive income for the period attributable to shareholders of the Company		<u>1,015</u>	<u>53,359</u>
Earnings per share (RMB cents)			
Basic and diluted	9	<u>0.1</u>	<u>6.5</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 June 2016 <i>RMB'000</i> (Unaudited)	At 31 December 2015 <i>RMB'000</i> (Audited)
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		84,070	80,904
Construction in progress		1,272	1,272
Intangible assets		70,078	61,628
Lease prepayments		2,811	2,853
Deposits for purchase of property, plant and equipment		9,600	6,400
Deposits for acquisition of distribution channels		—	33,384
Deferred tax assets		2,133	2,258
Goodwill		35,335	15,095
		205,299	203,794
Current assets			
Inventories	10	60,942	43,231
Trade and other receivables	11	414,500	310,321
Pledged bank deposits		27,500	55,082
Fixed deposits at bank with original maturity over three months		300,000	—
Cash and cash equivalents		31,089	446,244
		834,031	854,878
Current liabilities			
Bank loans		55,310	57,724
Trade and other payables	12	34,620	47,506
Current tax payable		3,476	8,942
		93,406	114,172
Net current assets		740,625	740,706
Total assets less current liabilities		945,924	944,500
Non-current liabilities			
Deferred tax liabilities		1,300	1,300
Net assets		944,624	943,200
Equity			
Share capital	13(a)	6,483	6,483
Reserves		938,141	936,717
Total equity		944,624	943,200

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company's principal place of business in Hong Kong is located at Room 1601, Ho King Commercial Centre, 2–16 Fa Yuen Street, Mong Kok, Kowloon, Hong Kong.

During the period, the Group was principally engaged in the business of design, manufacture and sales of children apparel products. There were no significant changes in the nature of the Group's principal activities during the period.

2. BASIS OF PREPARATION

The 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 31 August 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of any changes in accounting policies are set out in note 3.

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.

The 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 the Group since the 2015 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 HLB Hodgson Impey Cheng Limited (“HLB”) 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 2015 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 2015 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 29 July 2016.

3. CHANGES IN ACCOUNTING POLICIES

The IASB has issued the following amendments to IFRSs that are first effective for the current accounting period of the Group.

- Amendments to IAS 1 Presentation of financial statements: Disclosure initiative
- Amendments to IAS 16 and IAS 38 Property, plant and equipment, Intangible assets: Clarification of acceptable methods of depreciation
- Amendments to IAS 27, Equity method in separate financial statements
- Amendments to IFRS 11, Accounting for acquisitions of interests in joint operations
- Amendments to IFRS 10, IFRS 12 and IAS 28, Investment entities: Applying the consolidation exception
- Annual Improvements to IFRSs 2012–2014 Cycle

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. REVENUE AND SEGMENT INFORMATION

The Group was principally engaged in the business of design, manufacture and sales of children's apparel products. Revenue represents the sales value of goods sold less returns, discounts and value added taxes.

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segments.

	Wholesalers		Retail outlets		Total	
	Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June	
	2016	2015	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from external customers	136,882	290,000	12,820	—	149,702	290,000
Inter-segment revenue	12,631	—	—	—	12,631	—
Reportable segment revenue	<u>149,513</u>	<u>290,000</u>	<u>12,820</u>	<u>—</u>	<u>162,333</u>	<u>290,000</u>
Segment results	<u>12,834</u>	<u>75,021</u>	<u>226</u>	<u>—</u>	<u>13,060</u>	<u>75,021</u>
Other revenue					1	67
Central administration costs					(2,350)	(2,133)
Finance costs					(61)	—
Profit before taxation					<u>10,650</u>	<u>72,955</u>

The accounting policies of the operating segments are the same as the Group's accounting policies to the consolidated financial statements. Segment results represent the profit/(loss) recorded by each segment without allocation of other revenue, and central administrative costs including directors' remuneration and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and assessment of segment performance.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments.

	Wholesalers		Retail outlets		Total	
	At	At	At	At	At	At
	30 June	31 December	30 June	31 December	30 June	31 December
	2016	2015	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Segment assets	<u>941,988</u>	<u>935,431</u>	<u>96,702</u>	<u>91,056</u>	<u>1,038,690</u>	<u>1,026,487</u>
Unallocated assets					<u>640</u>	<u>32,185</u>
Total assets					<u>1,039,330</u>	<u>1,058,672</u>
Segment liabilities	<u>82,003</u>	<u>99,783</u>	<u>323</u>	<u>253</u>	<u>82,326</u>	<u>100,036</u>
Unallocated liabilities					<u>12,380</u>	<u>15,436</u>
Total liabilities					<u>94,706</u>	<u>115,472</u>

For the purpose of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than assets held by the Company and its subsidiaries which the role are investment holding company. Goodwill is allocated to reportable segments; and
- all liabilities are allocated to reportable segments other than liabilities held by the Company and its subsidiaries which the role are investment holding company.

Geographical information:

During the period ended 30 June 2016 and 2015, the Group only operated in the PRC and all of the Group's revenue are derived from the PRC.

Information about major customers:

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

	Six months ended	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Customer A*	—	66,561
Customer B*	—	29,571
Customer C	22,003	—
Customer D	16,279	—

* No information on revenue for the current period is disclosed for this customer since it contributed less than 10% to the Group's revenue for the period.

5. SEASONALITY OF OPERATION

The Group usually sells spring and summer children apparel products in the first half of the year and sells autumn and winter children apparel products in the second half of the year. The selling price of autumn and winter children apparel products is usually higher than that of the spring and summer children apparel products. As a result, the Group typically reports lower revenues and results for the first half of the year.

6. OTHER REVENUE AND OTHER NET (LOSS)/GAIN

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Other revenue		
Interest income	3,308	2,594
Government grants* (Note)	—	3,820
Rental income	281	—
Others	5	47
	<u>3,594</u>	<u>6,461</u>
Other net (loss)/gain		
Net foreign exchange (loss)/gain	(610)	14
Change in fair value of a foreign exchange forward contract	—	565
	<u>(610)</u>	<u>579</u>

Note:

- * Government grants are unconditional and mainly include subsidies received from local authorities for the expenses incurred in the issuance of the Company's shares by global offering.

7. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(a) Finance costs:		
Interest on bank loans	<u>1,432</u>	<u>1,503</u>
(b) Staff costs:		
Contributions to defined contribution retirement plans	1,617	1,503
Salaries, wages and other benefits	17,333	20,118
Equity-settled share-based payment expenses	<u>409</u>	<u>409</u>
	<u>19,359</u>	<u>22,030</u>
(c) Other items:		
Amortisation		
— lease prepayments	44	44
— intangible assets	6,533	32
Depreciation	3,576	1,730
Operating lease charges in respect of properties	773	923
Research and development expenses	2,319	3,241
Cost of inventories sold [#]	<u>95,391</u>	<u>185,560</u>

- [#] Cost of inventories for the six months ended 30 June 2016 includes RMB6,709,000 (six months ended 30 June 2015: RMB11,449,000) relating to staff costs and depreciation, which amount is included in the respective total amounts disclosed separately in notes 7(b) and (c) above for each of these types of expenses.

8. INCOME TAX

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current tax		
PRC corporate income tax	9,344	19,003
Deferred tax		
Origination of temporary differences	125	604
	<u>9,469</u>	<u>19,607</u>

- (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 the six months ended 30 June 2015 and 2016;
- (iii) The applicable income tax rate for all of the Group’s subsidiaries in mainland China is 25%; and
- (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 withholding 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.

9. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the period attributable to shareholders of the Company of RMB1,181,000 (six months ended 30 June 2015: RMB53,348,000) and the weighted average of 824,000,000 ordinary shares (six months ended 30 June 2015: 824,000,000 shares).

(b) Diluted earnings per share

The effect of the Company’s share options was anti-dilutive for the six months ended 30 June 2016 and 2015, and therefore, diluted earnings per share are the same as the basic earnings per share.

10. INVENTORIES

	At	At
	30 June	31 December
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Raw materials	54,841	2,944
Work in progress	3,630	2,710
Finished goods	2,471	37,577
	<u>60,942</u>	<u>43,231</u>

11. TRADE AND OTHER RECEIVABLES

	At 30 June 2016 <i>RMB'000</i> (Unaudited)	At 31 December 2015 <i>RMB'000</i> (Audited)
Trade receivables	262,416	251,071
Prepayments to suppliers	124,539	24,313
Other deposits, prepayments and receivables	27,545	34,937
	<u>414,500</u>	<u>310,321</u>

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 120 days.

As of the end of the reporting period, the ageing analysis of trade receivables of the Group based on invoice date is as follows:

	At 30 June 2016 <i>RMB'000</i> (Unaudited)	At 31 December 2015 <i>RMB'000</i> (Audited)
Within 90 days	95,882	175,905
90–120 days	29,881	75,166
After 120 days but within 180 days	45,678	—
After 180 days but within 1 years	90,975	—
	<u>262,416</u>	<u>251,071</u>

The ageing analysis of trade receivables that are not individually nor collectively considered to be impaired is as follows:

	At 30 June 2016 <i>RMB'000</i> (Unaudited)	At 31 December 2015 <i>RMB'000</i> (Audited)
Neither past due nor impaired	125,763	—
Past due but not impaired		
Less than 1 month past due	19,842	—
Over 1 month but within 3 months past due	78,433	—
Over 3 months past due	38,378	—
	<u>262,416</u>	<u>—</u>

Receivables that were neither past due nor impaired relate to a certain number of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to independent customers that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and these balances are still considered fully recoverable.

12. TRADE AND OTHER PAYABLES

	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Trade payables	5,513	4,638
Receipts in advance	1,077	1,088
Amounts due to related parties	10,096	7,710
Other payables and accruals	17,934	34,070
	<u>34,620</u>	<u>47,506</u>

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

	At 30 June 2016 RMB'000 (Unaudited)	At 31 December 2015 RMB'000 (Audited)
Within 90 days	5,016	4,141
After 120 days but within 180 days	—	—
After 180 days but within 1 year	—	—
After 1 year	497	497
	<u>5,513</u>	<u>4,638</u>

13. CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

Authorised and issued share capital

	2016			2015		
	No. of shares	HK\$'000	RMB'000 (Unaudited)	No. of shares	HK\$'000	RMB'000 (Audited)
Authorised:						
Ordinary shares of HK\$0.01 each	<u>10,000,000,000</u>	<u>100,000</u>	<u>79,380</u>	<u>10,000,000,000</u>	<u>100,000</u>	<u>79,380</u>
Ordinary shares, issued and fully paid:						
At 1 January, 30 June/31 December	<u>824,000,000</u>	<u>8,240</u>	<u>6,483</u>	<u>824,000,000</u>	<u>8,240</u>	<u>6,483</u>

(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 shareholders attributable to the interim period:

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: nil).

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

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
No dividend declared and paid, during the following interim period (six months ended 30 June 2015: Final dividend in respect of the previous financial year, approved and paid, of HK\$2 cents per ordinary share)	—	13,011

14. ACQUISITION OF DISTRIBUTION CHANNELS

Acquisition of distribution channels from Quanzhou City Rui Hong Apparel Trading Co., Ltd.

On 23 June 2015, Quanzhou Tuoyu Trade Co., Ltd. (“**Quanzhou Tuoyu**”) and Red Kids (China) Co., Ltd (“**Red Kids (China)**”) entered into an acquisition agreement with Quanzhou City Rui Hong Apparel Trading Co., Ltd. (“**Rui Hong**”), a distributor of Red Kids (China), to acquire its 51 distribution channels at a cash consideration of RMB89,372,000. Pursuant to the acquisition agreement, the transfer of distribution channels shall take place in 2 phases. The first phase involved the transfer of certain distribution channels to Quanzhou Tuoyu, which had taken place in September 2015. The second phase would involve the transfer of the remaining distribution channels to Quanzhou Tuoyu, which shall take place on or before 31 December 2015. Please refer to the Company’s announcement dated 23 June 2015 for details.

On before 31 December 2015, the Quanzhou Tuoyu and the Red Kids (China) had entered a supplemental agreement with the Rui Hong to extend the long stop date for the second phase of transfer of the remaining 26 distributions channels to 30 June 2016. Please refer to the Company’s announcement dated 13 January 2016 for details.

The second phase of transfer of the 26 distributions channels took place on 30 June 2016 and an amount of RMB39,762,000 was recognised as net consideration paid (the “**Rui Hong Transfer Phase 2**”).

The Directors of the Company consider the acquisition of distribution channels from Rui Hong constitute a business combination in accordance with IFRS 3 business combinations.

The net assets acquired and recognised as at the date of the Rui Hong Transfer Phase 2 are as follows:

	Fair value
	RMB'000
	(Unaudited)
Property, plant and equipment	4,538
Intangible assets	14,984
	<hr/>
	19,522
Goodwill arising on the business combination	20,240
	<hr/>
	39,762
	<hr/> <hr/>

Total consideration satisfied by:

RMB'000
(Unaudited)

Cash consideration paid

39,762

An analysis of the cash flows in respect of the Rui Hong Transfer Phase 2 is as follows:

RMB'000
(Unaudited)

Cash consideration paid

39,762

Net outflow of cash and cash equivalents included in cash flows from investing activities

39,762

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET, BUSINESS AND OUTLOOK

For the six months ended 30 June 2016, revenue and net profit of our Group amounted to approximately RMB149.7 million and RMB1.2 million respectively, as compared to that of approximately RMB290.0 million and RMB53.3 million respectively for the six months ended 30 June 2015.

The clothing industry went through some ups and downs in the first six months of 2016. The recent slowdown in the economy of the Chinese mainland has negatively affected the clothing retail market and consumer sentiment. Meanwhile, the clothing industry needs transformation and upgrade in light of the impact of the on-line shopping. Many industries, including clothing, will continue to experience downward pressure. The children's garment industry of the Chinese mainland, the industry that we are in, will stay in a period of adjustment for some time.

The strategy of “reform of the supply front” is the theme of the new economic structural adjustment starting from 2016, the first year of the 13th Five-Year Plan proposed by the PRC government. All clothing brands are exploring their ways to further exploit consumption potential in the clothing market and improve their competitiveness. The need for children's garment is strong, and is expected to grow at a certain speed for a long time due to continuous economic growth and national consumption demand, as well as more emphasis on the living standards of the next generation.

Personalization and diversity of market demand is becoming an unstoppable trend. Following this trend, we focus our first step on garment production and even the R&D of fabrics, digging deep in the Group's potential. As a result, our garments are increasingly personalized, and are always recognized by consumers. Our advantage in 80–110 cm kids' garment keeps growing with the newly developed brand “Migood” which further satisfies the demand of our target customer group.

In terms of distribution channel, we carefully evaluated the performance of our current outlets. We closed down some outlets with low performance (which impacted sales performance of our own branded products), and made adjustments to optimize performance of the remaining outlets. We also put restrictions on opening new outlets, in consideration that consumers now turn to malls and the internet for clothes shopping. Consumers' shopping experience is highly valued. In the first six months of 2016, we upgraded our current outlets. With optimized plans for design and display, some upgraded outlets can provide better shopping experience to consumers.

We also value operating capacity of our brand retailers. In order to build a strong team spirit, we organized continuous training and developed incentive plans this year, which effectively improved the business capacity of front-line sales staff at our proprietary and distribution outlets.

In terms of brand promotion, we have been using new media and some platforms to promote the company brand and its products. The children's garment show that we organize every other year, together with order fairs, have attracted the attention of many dealers and end-consumers. The effective use of “We Media” like “WeChat” and “Weibo” has enabled more frequent interactions between our target groups and us, and thus consumers pay more attention to our brand.

Although the Chinese mainland economy and the consumer market will not see huge improvement in the near future, we still believe that the improving consumption capacity of the middle class in mainland China, the ongoing development of e-commerce, and the new and convenient distribution channels will drive Chinese economic development in the long run. With the coming fertility peak, the two-child policy, and the increase in the overall national disposable income, consumer sentiment

for children's garment will grow. The 226 million children below 14 in mainland China and the two-child policy would ensure the width of the market. Family structure and the consumption views of parents born between the 1970s and the 1990s are affected by the increasing brand awareness. That is to say, mainland Chinese consumers still have strong needs for children's garment. Consumer needs are inevitably more mature and personalized, and their focus turns to safety, comfort, certain sense of fashion, and composition.

Looking forward, we will seize market opportunities and prepare ourselves for future challenges. We are now working on a multi-brand operating plan which satisfies changing consumer needs in all ways, and will achieve sustainable development through retail-oriented operating strategy.

The following tables set forth a breakdown of our branded retail outlets by distribution channel and city type:

	As at 30 June 2016			As at 31 December 2015		
	Operated by distributors	Self-operated	Total	Operated by distributors	Self-operated	Total
Shopping mall outlets and concessions	194	26	220	238	23	261
Street shops	260	32	292	288	15	303
	454	58	512	526	38	564

	As at 30 June 2016			As at 31 December 2015		
	Operated by distributors	Self-operated	Total	Operated by distributors	Self-operated	Total
First-tier cities <i>Note 1</i>	11	—	11	31	—	31
Second-tier cities <i>Note 1</i>	80	6	86	80	4	84
Third-tier cities <i>Note 1</i>	198	32	230	224	25	249
Fourth-tier cities <i>Note 1</i>	165	20	185	191	9	200
	454	58	512	526	38	564

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

FINANCIAL REVIEW

Revenue

Our Group's products are primarily marketed through wholesaling to distributors who operate "redkids" branded retail stores in various provinces and municipalities in China. As of 30 June 2016, there were 512 "redkids" branded retail stores operated by distributors and self-operated in China.

The retail industry in China experienced a declining retail climate and uncertainty of consumer sentiment during the first half of 2016. Our Group's revenue was unavoidably affected by these unfavourable market conditions despite a progressive relaxation of the one-child policy. Coupled with a temporary slow-down of orders received from our distributors due to our Group's enhancement and innovation plan implemented in early 2016 for the "redkids" branded retail stores, our Group's revenue recorded a decrease of about 48.4%, from approximately RMB290.0 million for the six months ended 30 June 2015 ("1H 2015") to approximately RMB149.7 million for the six months ended 30 June 2016 ("1H 2016").

Sales to distributors continued to account for the majority of our Group's revenue during 1H 2016. Sales to distributors was approximately RMB146.1 million for 1H 2016, representing approximately 97.6% of our Group's revenue, as compared to that of approximately RMB222.6 million and 76.7% for 1H 2015.

As a result of the transformation and upgrade in light of the impact of on-line shopping, our Group is currently reviewing the channels of on-line shopping in order to maximize the returns to the Group in the future. Sales to our designated online distributor, who resells our products through different online sales platforms in China, was undergone changes and recorded no sales to this distributor for 1H 2016 as compared to RMB66.6 million for 1H 2015. The sales through this channel will be started up in the second half of 2016.

For the apparel products segment, sales volume was approximately 2.9 million units for 1H 2016, representing about 51.7% decrease as compared to that of approximately 6.0 million units for 1H 2015. The average wholesale selling price for 1H 2016 recorded an increase as compared to that for 1H 2015, partially reflecting our change in product mix and change in sales channels in 1H 2016.

For the footwear and accessories segment, sales was decreased from approximately RMB 20.9 million for 1H 2015 to approximately RMB 0.08 million for 1H 2016. The reduction in sales from this segment is mainly due to the adjustment in the products sales category strategy under review in 1H 2016.

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

	1H 2016		1H 2015		% change
	RMB'000	%	RMB'000	%	
Apparel	149,627	99.9	268,383	92.5	-44.3
Footwear and Accessories	75	0.1	20,861	7.2	-99.6
OEM services	—	—	756	0.3	-100.0
	149,702	100.0	290,000	100.0	-48.4
	1H 2016		1H 2015		% change
	RMB'000	%	RMB'000	%	
Sales to distributors	146,120	97.6	222,645	76.7	-34.3
Sales to online distributor	—	—	66,561	22.9	-100.0
Sales from self-operated stores	3,582	2.4	38	0.1	+9,326.3
OEM services	—	—	756	0.3	-100.0
	149,702	100.0	290,000	100.0	-48.4

Cost of Sales

Our cost of sales recorded a decrease from approximately RMB185.6 million for 1H 2015 to approximately RMB95.4 million for 1H 2016, which was broadly in line with the decrease in sales volume. Raw materials and manufacturing overhead costs remained stable during 1H 2016. We devoted our focus on brand and retail stores management, and engaged other OEM factories to handle most of the manufacturing tasks. As a percentage of cost of sales, purchases from OEM factories accounted for approximately 83.5% for 1H 2016, which was comparable to that of approximately 73.5% for 1H 2015.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit decreased from approximately RMB104.4 million for 1H 2015 to approximately RMB54.3 million for 1H 2016. Gross profit margin was approximately 36.3% for 1H 2016, representing an increase of approximately 0.3 percentage points as compared to that of 36.0% for 1H 2015.

Other Revenue

During 1H 2016, our Group mainly included the interest income from bank deposits amounting to approximately RMB3.3 million for 1H 2016 (1H 2015: approximately RMB2.6 million.)

Selling and Distribution Expenses

Selling and distribution expenses was approximately RMB31.1 million for 1H 2016, representing an increase of RMB8.0 million or about 34.6%, as compared to that of approximately RMB23.1 million for 1H 2015. The increase in selling and distribution expenses was mainly due to an increase in amortisation charges of approximately RMB5.1 million in relation to the acquisition of distribution channels recorded in 1H 2016. As a percentage of revenue, selling and distribution expenses was 20.8% for 1H 2016 (1H 2015: 8.0%).

Administrative and Other Operating Expenses

Administrative and other operating expenses was RMB14.1 million for 1H 2016, representing a slight increase of RMB0.2 million or about 1.4% as compared to that of RMB13.9 million for 1H 2015. The increase in the administrative and other operating expenses mainly reflected the increase in the depreciation charge in relation to the computer software recorded in 1H 2016. As a percentage of revenue, it increased from 5.5% for 1H 2015 to 9.4% for 1H 2016.

Finance Costs

Finance costs mainly represented interest on bank borrowings. Finance costs decreased from approximately RMB1.5 million for 1H 2015 to approximately RMB1.4 million for 1H 2016 as a result of the decrease in bank borrowings during 1H 2016.

Income Tax Expenses

Income tax expenses was RMB9.5 million for 1H 2016, as compared to that of approximately RMB19.6 million for 1H 2015. The effective tax rate was approximately 88.9% and 26.9%, respectively, for 1H 2016 and 1H 2015.

Profit for the Period

As a result of the foregoing, profit for the period decreased by 97.8%, from approximately RMB53.3 million for 1H 2015 to approximately RMB1.2 million for 1H 2016.

Working Capital Management

Our Group recorded net current assets of approximately RMB740.6 million with a current ratio of 8.9 times as of 30 June 2016, compared to that of approximately RMB740.7 million and 7.5 times as of 31 December 2015. The table below sets forth the turnover days of trade receivables, inventories and trade payables at the end of the period indicated.

	Turnover days	
	For 30 June 2016	For 30 June 2015
Trade receivables	124	144
Inventories	100	38
Trade payables	10	16

Risks of foreign exchange fluctuation

Except for operations of our Company and other investment holding companies outside mainland China, our Group's businesses are principally conducted in RMB and most of the Group's monetary assets and liabilities are denominated in RMB. Accordingly, the management considers our Group's exposure to currency risk to be insignificant.

Liquidity and Capital Resources

Our Group mainly relies on cash flows from operations to finance working capital requirements and capital expenditures. Our Group's cash and cash equivalents, and fixed deposits totalled approximately RMB331.1 million as of 30 June 2016 (31 December 2015: approximately RMB446.2 million). Bank borrowings of our Group was approximately RMB55.3 million as of 30 June 2016, as compared to that of approximately RMB57.7 million as of 31 December 2015. Gearing ratio was only 5.9% and 6.1%, respectively, as of 30 June 2016 and 31 December 2015.

Our Group recorded an increase in net cash used in operating activities of approximately RMB298.6 million, from net cash generated from operating activities approximately RMB167.6 million for 1H 2015 to net cash used in operating activities approximately RMB131.0 million for 1H 2016. The significant increase mainly represented the increase in trade receivables and prepayment to suppliers.

Net cash used in investing activities was approximately RMB282.5 million for 1H 2016, as compared to that of approximately RMB30.3 million for 1H 2015. Net cash used in financing activities was approximately RMB1.5 million for 1H 2016, as compared to net cash generated from financing activities of approximately RMB16.3 million for 1H 2015.

As a result of the foregoing, there was a net decrease in cash and cash equivalents of approximately RMB415.0 million for 1H 2016 (1H 2015: net increase approximately RMB153.6 million).

Notes to financial ratios:

- (1) Trade receivables turnover days equal the average of the opening and closing balances of trade receivables of the relevant period divided by revenue of the relevant period and multiplied by 182 days.

- (2) Inventory turnover days equal 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.
- (3) Trade payables turnover days equal 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 current assets divided by current liabilities as of the end of the period.
- (5) Gearing ratio equals the total of bank and other borrowings divided by total equity as of the end of the period.

Capital Commitments and Contingent Liabilities

Capital commitments not provided for as at the end of the period indicated:

	At	At
	30 June	31 December
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted for	<u>8,382</u>	<u>19,582</u>

Our Group had no material contingent liabilities as of 30 June 2016.

Pledge of Assets

Buildings and lease prepayments with net book value of approximately RMB9.2 million as at 30 June 2016 (31 December 2015: approximately RMB9.7 million) were pledged as collateral for our Group's bank loans. Bank deposits of approximately RMB27.5 million (31 December 2015: approximately RMB5.1 million) have been pledged as security for our Group's bank loans, and no bank deposits (31 December 2015: approximately RMB50.0 million) have been pledged as collateral for our Group's undrawn banking facilities (31 December 2015: approximately RMB50.0 million).

Significant investments and material acquisitions and disposals of subsidiaries

For the six months ended 30 June 2016, there was no material investments, acquisition or disposal of subsidiaries by the Group.

Investments held in foreign currency and hedging

For the six months ended 30 June 2016, the Group did not hold any investments denominated in foreign currencies. Furthermore, the Group's working capital or liquidity did not encounter any material difficulties or material impacts as a result of the movement in exchange rate.

USE OF PROCEEDS

As of 30 June 2016, our Group had utilized the net proceeds from the global offering and over-allotment of new shares of the Company as set out below:

	Percentage to the net proceeds (Note 2)	Net proceeds RMB'million	Utilised amount RMB'million	Unutilised amount (Note 3) RMB'million
Establish self-operated retail stores (Note 1)	21.2%	60.5	50.7	9.8
Enhance design and research and development capabilities in our design center in Shanghai	26.9%	76.7	3.3	73.4
Recruit at least 30 additional design and research and development staff	4.2%	12.0	1.3	10.7
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	11.7	46.2
Marketing and promotional activities	15.9%	45.2	33.1	12.1
Working capital and general corporate purposes	5.0%	14.2	14.2	—
	<u>100.0%</u>	<u>285.0</u>	<u>114.3</u>	<u>170.7</u>

Notes:

- (1) Our Group had entered into an acquisition agreement with one of its distributors to acquire 51 distribution channels on 23 June 2015. The distribution channels had been transferred to our Group in September 2015 and June 2016, respectively. Please refer to note 14 to the condensed consolidated financial statements in this interim results announcement and note 28(a) to the 2015 annual report for details.
- (2) There had been a change in the use of a portion of the net proceeds originally allocated for establishing not more than 50 self-operated retail stores by the end of 2014 to marketing and promotional activities. For further details, please refer to the separate announcement of the Company dated 18 March 2015.
- (3) The unutilised net proceeds have been placed in short-term deposits with licensed banking institutions in China.

EMPLOYEES AND REMUNERATION POLICIES

The emolument policy of our Group is aimed at attracting, retaining and motivating talented 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 30 June 2016, we employed around 700 full-time employees. The total staff costs for 1H 2016 was approximately RMB19.4 million (1H 2015: approximately RMB22.0 million).

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during 1H 2016.

SUBSEQUENT EVENTS

As disclosed in the Company's announcement dated 31 March 2016, as a result of the delay in the finalization of the audit of the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2015 (the "**2015 Annual Results**"), the trading in the shares of the Company on the Stock Exchange had been suspended with effect from 1 April 2016 pending release of the announcement of 2015 annual results. On 1 August 2016, trading of shares of the Company was resumed upon fulfillment of certain resumption conditions as imposed by the Stock Exchange on 11 July 2016. The 2015 annual report has been published on the websites of the Stock Exchange and the Company on 11 August 2016. The Company's 2015 annual general meeting (the "**AGM**") approving, among others, the 2015 annual report will be held on 22 September 2016 and the notice of the AGM, the proxy form and the circular in respect of the AGM have been dispatched to the shareholders of the Company on 11 August 2016. Please refer to the Company's announcement dated 29 July 2016 for details.

CORPORATE GOVERNANCE

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. During 1H 2016, the Board comprised four executive Directors and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code ("**CG Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**"). During 1H 2016, the Company has complied with the CG Code, except for the deviation as explained below.

Code provision A.2.1 provides that the roles of chairman and chief executive should be separate and should 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 roles of both chairman and chief executive officer in Mr. Ding has the benefit of ensuring consistent leadership within our Group and enabling 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.

Code provision C.1.2 provides that management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the issuer's performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules. During 1H 2016, the management of the Company had not provided regular monthly updates to the members of the Board. The management had provided information and updates to the members of the Board as and when appropriate.

Code provision A.5.1 provides that an issuer's nomination committee shall comprise a majority of independent non-executive directors. Following the resignation of Mr. Wong Heng Choon from the position of an independent non-executive Director and a member of the nomination committee with effect from 14 March 2016, the Company had failed to meet the requirement under code provision A.5.1. On 14 April 2016, the Company appointed Ms. Lo Wing Yan, Emmy as an independent non-executive Director and a member of the nomination committee in compliance with the CG Code.

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 during 1H 2016.

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 Ms. Lo Wing Yan, Emmy, being chairman of Audit Committee, Mr. Hung Cho Sing and Mr. Zhu Wenxin, has reviewed our unaudited consolidated financial statements for 1H 2016, which is also reviewed by HLB, external auditors of the Company, and the accounting principles and practices adopted, and discussed auditing, internal controls and financial reporting matters with our management and HLB.

INTERIM DIVIDEND

The Board has not recommended the payment of an interim dividend for 1H 2016 (1H 2015: Nil).

SUFFICIENCY OF 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 had maintained sufficient public float of more than 25% of the Company's issued share capital as required under the Listing Rules as of the date of this announcement.

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 2016 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 express its sincere gratitude to the management team and employees for their commitment and diligence, and would like to thank our shareholders and business associates for their strong support to the Group.

By Order of the Board
Miko International Holdings Limited
Ding Peiji
Chairman

Quanzhou, Fujian Province, China
31 August 2016

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

Executive Directors: Mr. Ding Peiji, Mr. Ding Peiyuan and Ms. Ding Lizhen

Independent non-executive Directors: Mr. Hung Cho Sing, Mr. Zhu Wenxin and Ms. Lo Wing Yan, Emmy