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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

The board (the "**Board**") of directors (the "**Directors**") of Miko International Holdings Limited (the "**Company**") announced the audited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the financial year ended 31 December 2016 (the "**FY2016**") which has been reviewed and approved by the Audit Committee, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016 (Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Turnover	3	**368,849**	585,698
Cost of sales		**(357,182)**	(373,252)
Gross profit		**11,667**	212,446
Other revenue	4	**5,327**	7,605
Other net (loss)/gain	4	**(252)**	1,079
Impairment loss recognised on property, plant and equipment		**—**	(15,761)
Written down on inventories		**(16,012)**	—
Impairment loss recognised on trade receivables		**(7,777)**	—
Impairment loss recognised on goodwill	9	**(17,800)**	—
Selling and distribution expenses		**(69,794)**	(92,378)
Administrative and other operating expenses		**(35,803)**	(37,959)
(Loss)/profit from operations		**(130,444)**	75,032
Finance costs	5(a)	**(2,636)**	(3,111)
(Loss)/profit before taxation	5	**(133,080)**	71,921
Income tax	6(a)	**(11,375)**	(41,583)
(Loss)/profit for the year attributable to shareholders of the Company		**(144,455)**	30,338
Other comprehensive (loss)/income for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of overseas subsidiaries		**(855)**	(638)
Total comprehensive (loss)/income for the year attributable to shareholders of the Company		**(145,310)**	29,700
(Loss)/earnings per share *(RMB cents)*			
— Basic and diluted	7	**(18)**	4

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016 (Expressed in Renminbi)

	Note	**2016**	2015
		RMB'000	*RMB'000*
Non-current assets			
Property, plant and equipment		**83,098**	80,904
Construction in progress		**—**	1,272
Intangible assets	8	**61,782**	61,628
Lease prepayments		**2,765**	2,853
Deposits for purchase of property, plant and equipment		**27,470**	6,400
Deposits for acquisition of distribution channels		**—**	33,384
Goodwill	9	**26,736**	15,095
Deferred tax assets		**2,009**	2,258
		203,860	203,794
Current assets			
Inventories		**80,750**	43,231
Trade receivables	10	**314,965**	251,071
Prepayments, deposits and other receivables		**68,710**	59,250
Pledged bank deposits		**—**	55,082
Fixed deposits at banks with original maturity over three months		**201,300**	—
Cash and cash equivalents		**12,541**	446,244
		678,266	854,878
Current liabilities			
Bank loans		**49,300**	57,724
Trade and other payables	11	**33,225**	47,506
Current tax payable		**—**	8,942
		82,525	114,172
Net current assets		**595,741**	740,706
Total assets less current liabilities		**799,601**	944,500
Non-current liabilities			
Deferred tax liabilities		**1,300**	1,300
Net assets		**798,301**	943,200
Equity			
Share capital		**6,483**	6,483
Reserves		**791,818**	936,717
Total equity		**798,301**	943,200

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

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 year, the Company and its subsidiaries (collectively the "**Group**") were 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 year.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated 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 consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The 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 2(b) 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 the consolidated financial statements.

(b) 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:

- Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities; Applying the Consolidation Exception*
- Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*
- Amendments to IAS 1 *Disclosure Initiative*
- Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*
- Amendments to IFRS *Annual Improvements to IFRSs 2012 — 2014 Cycle*

These developments have had no material impact on the Group's consolidated financial statements.

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to IAS 7, statement of cash flows: Disclosure initiative	1 January 2017
Amendments to IAS 12, Income taxes: Recognition of deferred tax assets for unrealised losses	1 January 2017
IFRS 9, Financial instruments	1 January 2018
IFRS 15, Revenue from contracts with customers	1 January 2018
Amendments to IFRS 2, Share-based payment: Classification and measurement of share-based payment transactions	1 January 2018
IFRS 10, IFRS 12 and IAS 28 Amendment, Investment Entities: Applying the Consolidation Exception	1 January 2016
IFRS 16, Leases	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application.

So far it has concluded that the adoption of them is unlikely to result in material impacts to the Group's results of operations and financial position.

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

3 TURNOVER AND SEGMENT INFORMATION

The principal activities of the Group are design, manufacture and sales of children apparel products. Turnover 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	
	2016	2015	**2016**	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**344,508**	583,689	**24,341**	2,009	**368,849**	585,698
Inter-segment revenue	**21,735**	7,355	**—**	—	**21,735**	7,355
Reportable segment revenue	**366,243**	591,044	**24,341**	2,009	**390,584**	593,053
Segment results	**(77,714)**	95,390	**(13,096)**	(2,358)	**(90,810)**	93,032
Written down on inventories	**(16,012)**	—	**—**	—	**(16,012)**	—
Impairment loss recognised on trade receivables	**(7,777)**	—	**—**	—	**(7,777)**	—
Impairment loss recognised on goodwill	**—**	—	**(17,800)**	—	**(17,800)**	—
Impairment loss recognised on property, plant and equipment					**—**	(15,761)
Other revenue					**5,327**	69
Other net loss					**(252)**	—
Central administration costs					**(3,120)**	(5,383)
Finance costs					**(2,636)**	(36)
(Loss)/profit before taxation					**(133,080)**	71,921

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, other net gain/(loss), impairment loss of property, plant and equipment, finance costs and central administrative costs including directors' remuneration. 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:

	Wholesalers		Retail outlets		Total	
	2016	2015	**2016**	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment assets	**772,640**	935,431	**82,886**	91,056	**855,526**	1,026,487
Unallocated assets					**26,600**	32,185
Total assets					**882,126**	1,058,672
Segment liabilities	**69,502**	99,783	**253**	253	**69,755**	100,036
Unallocated liabilities					**14,070**	15,436
Total liabilities					**83,825**	115,472

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 Group which the roles are investment holding company. Goodwill is allocated to reportable segments; and

— all liabilities are allocated to reportable segments other than liabilities held by the Group which the roles are investment holding company.

Geographical information:

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

	2016	2015
	RMB'000	*RMB'000*
PRC	**368,849**	585,698
Overseas	**—**	—
	368,849	585,698

Information about major customers:

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

	2016	2015
	RMB'000	*RMB'000*
Customer A*	**—**	100,489
Customer B	**42,638**	73,892

* No information on turnover for the current year is disclosed for this customer since it contributed less than 10% to the Group's turnover for the year ended 31 December 2016.

4 OTHER REVENUE AND OTHER NET (LOSS)/GAIN

	2016 *RMB'000*	2015 *RMB'000*
Other revenue		
Interest income	**4,765**	3,576
Rental income	**562**	187
Government grants*	**—**	3,820
Others	**—**	22
	5,327	7,605
Other net (loss)/gain		
Net foreign exchange (loss)/gain	**(252)**	514
Change in fair value of a foreign exchange forward contract	**—**	565
	(252)	1,079

* Various government grants have been received for awarding the Group's achievements and contributions. There are no unfulfilled conditions or contingencies relating to these grants.

5 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging:

		2016 *RMB'000*	2015 *RMB'000*
(a)	**Finance costs:**		
	Interest on bank loans	**2,636**	3,111
(b)	**Staff costs:**		
	Contributions to defined contribution retirement plans	**3,157**	3,191
	Salaries, wages and other benefits	**37,573**	41,258
	Equity-settled share-based payment expenses	**411**	1,350
		41,141	45,799
(c)	**Other items:**		
	Amortisation		
	— lease prepayments	**88**	88
	— intangible assets	**14,829**	2,534
	Depreciation	**7,493**	4,698
	Auditors' remuneration		
	— Audit services	**1,369**	4,500
	— Non-audit services	**308**	—
	Loss on disposal of property, plant and equipment	**3,755**	2,102
	Impairment loss of property, plant and equipment	**—**	15,761
	Written down on inventories	**16,012**	—
	Impairment loss recognised on trade receivables	**7,777**	—
	Operating lease charges in respect of properties	**621**	1,555
	Research and development expenses	**8,270**	8,783
	Cost of inventories sold#	**357,182**	373,252

Cost of inventories for the year ended 31 December 2016 includes RMB20,709,000 (2015: RMB24,308,000) 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:

	2016	2015
	RMB'000	*RMB'000*
Current tax		
— PRC corporate income tax	**9,344**	40,930
Under-provision in prior year	**1,782**	67
Deferred tax		
— Origination of temporary differences	**249**	586
	11,375	41,583

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

	2016	2015
	RMB'000	*RMB'000*
(Loss)/profit before taxation	**(133,080)**	71,921
Notional tax on profit before taxation, calculated at the standard tax rates applicable to the respective tax jurisdictions	**(32,490)**	18,435
Tax effect of income and expenses not taxable or deductible for tax purpose	**18,715**	19,649
Tax effect of tax losses not recognised	**23,368**	3,432
Under-provision in prior year	**1,782**	67
Actual tax expense	**11,375**	41,583

(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 2015 and 2016.

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

7 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss for the year of RMB144,455,000 (2015: profit of RMB30,338,000) and the weighted average of 824,000,000 ordinary shares (2015: 824,000,000 ordinary shares).

Weighted average number of ordinary shares

	2016	2015
	'000	*'000*
Issued ordinary shares at 1 January and 31 December	**824,000**	824,000

(b) Diluted (loss)/earnings per share

The effect of the Company's share options was anti-dilutive for the year ended 31 December 2016 and 2015, and therefore, diluted (loss)/earnings per share are the same as the basic (loss)/earnings per share.

8 INTANGIBLE ASSETS

	Computer software	**Distribution channels**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Cost:			
At 1 January 2015	644	—	644
Additions	27,798	—	27,798
Acquisition *(Note 13)*	—	35,874	35,874
At 31 December 2015 and 1 January 2016	28,442	35,874	64,316
Acquisition *(Note 13)*	—	14,983	14,983
At 31 December 2016	28,442	50,857	79,299
Accumulated amortisation:			
At 1 January 2015	154	—	154
Charge for the year	525	2,009	2,534
At 31 December 2015 and 1 January 2016	679	2,009	2,688
Charge for the year	2,836	11,993	14,829
At 31 December 2016	3,515	14,002	17,517
Net book value:			
At 31 December 2016	24,927	36,855	61,782
At 31 December 2015	27,763	33,865	61,628

The amortisation for the year is included in selling and distribution expenses and administrative and other operating expenses in the consolidated statement of profit or loss and other comprehensive income.

The following useful lives are used in the calculation of amortisation:

Computer software	10 years
Distribution channels	2–4¼ years

9 GOODWILL

	RMB'000
Cost:	
At 1 January 2015	—
Acquisition *(Note 13)*	15,095
At 31 December 2015 and 1 January 2016	15,095
Acquisition *(Note 13)*	29,441
At 31 December 2016	44,536
Accumulated impairment:	
At 1 January 2015, 31 December 2015 and 1 January 2016	—
Impairment for the year	17,800
At 31 December 2016	17,800
Net book value:	
At 31 December 2016	26,736
At 31 December 2015	15,095

Note:

At the end of the reporting period, the Group assessed the recoverable amount of cash generating unit to which the goodwill is allocated by appointing an independent professional valuer, who have staff members with appropriate experience and qualifications. The assessment conformed to the International Valuation Standards 2013 published by International Valuation Standard Council.

10 TRADE RECEIVABLES

	2016 ***RMB'000***	2015 *RMB'000*
Trade receivables	**322,742**	251,071
Less: Allowance for doubtful debts	**(7,777)**	—
	314,965	251,071

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 30 to 120 days (2015: 120 days).

As of the end of the reporting period, the ageing analysis of trade receivables based on invoice date and net of allowance for doubtful debts, is as below:

	2016 ***RMB'000***	2015 *RMB'000*
Within 90 days	**131,585**	175,905
90–120 days	**27,038**	75,166
After 120 days but within 180 days	**30,934**	—
After 180 days but within 1 year	**96,715**	—
Over 1 year	**28,693**	—
	314,965	251,071

11 TRADE AND OTHER PAYABLES

	2016	2015
	RMB'000	*RMB'000*
Trade payables	**6,079**	4,638
Receipts in advance	**1,324**	1,088
Amounts due to related parties	**12,722**	7,710
Other payables and accruals	**13,100**	34,070
	33,225	47,506

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

	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**4,427**	4,141
After 3 months but within 6 months	**561**	—
After 6 months but within 1 year	**594**	—
After 1 year	**497**	497
	6,079	4,638

12 DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2016, nor has any dividend been proposed since the end of the reporting period (2015: final dividend of HK$13,100,000, in respect of the previous financial year, approved and paid).

13 ACQUISITION OF BUSINESS ON THE DISTRIBUTION CHANNELS

For the year ended 31 December 2016

*Acquisition of business on the second phase of the distribution channels from Quanzhou City Rui Hong Apparel Trading Co., Ltd. (the "**Rui Hong Transfer Phase 2**")*

The Directors had considered the acquisition of distribution channels from Rui Hong constituted as business combination in accordance with IFRS 3 Business Combinations.

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

	Fair value
	RMB'000
Property, plant and equipment	4,539
Intangible assets *(note 8)*	14,983
	19,522
Goodwill arising on the business combination *(Note 9)*	29,441
	48,963

Total consideration satisfied by:

	RMB'000
Cash consideration paid	48,963

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

	RMB'000
Cash consideration paid	48,963
Less: deposits for acquisition of distribution channels paid in previous year	(33,384)
Net outflow of cash and cash equivalents included in cash flows from investing activities	15,579

BUSINESS REVIEW AND OUTLOOK

For the full year of 2016, revenue and net loss of our Group amounted to approximately RMB368.8 million and RMB144.5 million respectively, as compared to revenue and net profit of approximately RMB585.7 million and RMB30.3 million respectively for the full year of 2015.

The recent and continuous slowdown of the economy has negatively affected the apparel retail market and consumer sentiment in the People's Republic of China (the "**PRC**"). Meanwhile, the apparel 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 apparel industry is yet to gain the momentum and is expected to undergo a consolidation in the near future in the PRC.

The strategy of "reform of the supply front" is the theme of the new economic structural adjustment starting from the year of 2016, the first year of the 13th Five-Year Plan proposed by the government in the PRC. All apparel brands are exploring their ways to further exploit consumption potential in the apparel market and improve their competitiveness. The need for children clothing 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 become an unstoppable trend. Following this trend, we focus our first step on garment production and even the Research and Development (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' apparel keeps growing with the newly developed brand "Migood" which further satisfies the demand of our target customer group. We have made the deposit approximately RMB16.5 million on the purchase of related plants and equipments in relation to the development of "Migood" brand as of 31 December 2016.

In terms of distribution channel, we always carefully evaluated the performance of our current retail outlets. We closed down some retail 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 internet shopping. Consumers' shopping experience is highly valued. In the full year of 2016, we continuously upgraded our current outlets. With optimized plans for design and display, upgraded outlets provide better shopping experience to consumers.

We always value operating capacity of our brand retailers. In order to build a strong team spirit, we organized continuous training and developed incentive plans 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 apparel exhibition shows and fairs organized by us 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 as such consumers pay more attention to our brand.

Although the economy and the consumer market will not see any sign of improvement in the near future in the PRC, we still believe that the improving consumption capacity of the middle class in the PRC, the ongoing development of e-commerce and the new and convenient distribution channels will drive 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 apparel will grow gradually. The 226 million children below 14 in the PRC 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, the consumers still have strong needs for children apparel in the PRC. 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 under the downturn economy. 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 channels and city types:

	As at 31 December 2016			As at 31 December 2015		
	Operated by distributors	**Self-operated**	**Total**	Operated by distributors	Self-operated	Total
Shopping mall outlets and concessions	**163**	**22**	**185**	238	23	261
Street shops	**226**	**26**	**252**	288	15	303
	389	**48**	**437**	526	38	564

	As at 31 December 2016			As at 31 December 2015		
	Operated by distributors	**Self-operated**	**Total**	Operated by distributors	Self-operated	Total
First-tier cities *Note 1*	**—**	**—**	**—**	31	—	31
Second-tier cities *Note 1*	**75**	**5**	**80**	80	4	84
Third-tier cities *Note 1*	**172**	**24**	**196**	224	25	249
Fourth-tier cities *Note 1*	**142**	**19**	**161**	191	9	200
	389	**48**	**437**	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:	County-level and other townships-level cities

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Our Group's products are primarily marketed through wholesaling to distributors and self-operated stores who operate "redkids" branded retail stores in various provinces and municipalities in the PRC. As at 31 December 2016, there were 389 "redkids" branded retail stores operated by our distributors and 48 self-operated stores in the PRC.

The retail industry experienced a declining retail climate, uncertainty and fragile of consumer sentiment and fierce competition in the PRC during the year of 2016. Our Group's revenue was unavoidably affected by these unfavourable market conditions despite a progressive relaxation of the one-child policy in the PRC. Coupled with a slow-down of orders received from our distributors and self-operated stores, our Group's revenue recorded a significant decrease of about 37.0%, from approximately RMB585.7 million for FY2015 to approximately RMB368.8 million for FY2016.

In the second half of 2016, the Group experienced the great pressure in the children apparel industry from the impact of continuous weak growth of the PRC consumer market. The actual orders of our children apparel placed and demanded by our distributors and self-operated stores were far less than expectation and forecast orders made to the suppliers in the first half of 2016. In order to lessen the pressure to our inventory level and turn the inventory into cash by the year ended of 2016, the Group sold some of the inventories at the reduction in prices to the distributors. As such, the adverse arrangement seriously impacted our selling price and the gross margin was squeezed in the full year of 2016.

Sales to distributors continued to account for the majority of our Group's revenue during FY2016. Sales to distributors was approximately RMB344.5 million for FY2016, representing approximately 93.4% of our Group's revenue, as compared to that of approximately RMB482.8 million or 82.4% for FY2015.

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 undergoing changes and no sales to this distributor were recorded for FY2016 as compared to RMB100.5 million for FY2015.

For the apparel products segment, sales volume was approximately 8.1 million units for FY2016, representing a decrease of approximately 22.9% as compared to that of approximately 10.5 million units for FY2015. The average wholesale selling price for FY2015 recorded a decrease as compared to that for FY2015, partially reflecting our change in product mix in FY2016.

For the footwear and accessories segment, sales decreased from approximately RMB20.9 million for FY 2015 to approximately RMB0.1 million for FY 2016. The reduction in sales from this segment is mainly due to the adjustment in the products sales category strategy under review in 2016.

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

	FY2016	FY2015	**% change**
Sales volume *(million units)*	**8.1**	10.5	(22.9)
Average wholesale price *(RMB)*	**45**	56	(19.6)

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

	FY2016		FY2015		% change
	RMB'000	*%*	*RMB'000*	*%*	
Apparel	**368,715**	**99.9**	563,995	96.3	(34.6)
Footwear and Accessories	**134**	**0.1**	20,947	3.6	(99.4)
OEM services	**—**	**—**	756	0.1	(100.0)
	368,849	**100.0**	585,698	100.0	(37.0)

We primarily market our products through the extensive retail network with over 400 retail outlets covering most of the provinces and municipalities in the PRC operated by our distributors and self-operated stores.

The table below sets forth our revenue by sales channels for the years indicated:

	FY2016		FY2015		% change
	RMB'000	*%*	*RMB'000*	*%*	
Sales to distributors	**344,508**	**93.4**	482,750	82.4	(28.6)
Sales to on-line distributor	**—**	**—**	100,489	17.2	(100.0)
Sales from self-operated stores	**24,341**	**6.6**	1,703	0.3	1,329.3
OEM services	**—**	**—**	756	0.1	(100.0)
	368,849	**100.0**	585,698	100.0	(37.3)

Cost of Sales

Our cost of sales decreased by approximately RMB16.1 million or approximately 4.3%, from RMB373.3 million for FY2015 to approximately RMB357.2 million for FY2016. The decrease was generally in line with the decrease in turnover. During FY2016, we continued to outsource the production of products which requires special technologies and know-how to OEM factories. As a percentage of cost of sales, purchase from OEM factories accounted for approximately 91.8% for FY2016 as compared to that of approximately 71.9% for FY2015.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit decreased by approximately RMB200.8 million or approximately 94.5%, from approximately RMB212.4 million for FY2015 to RMB11.7 million for FY2016. Gross profit margin decreased by 91.2%, from 36.3% for FY2015 to 3.2% for FY2016, mainly as a result of the intense competition in children apparel industry in the PRC and sales of some inventories at the reduction in prices to the distributors in the second half of 2016.

Other Revenue and Other Net (Loss)/Gain

Other revenue primarily consisted of interest income from bank deposits of approximately RMB4.7 million (FY2015: approximately RMB3.6 million) and government grants of approximately RMB3.8 million in relation to our Group's successful listing on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") in the year of 2014.

Other net (loss)/gain represented the net foreign exchange loss of approximately RMB0.3 million (FY2015: net gain of approximately RMB0.5 million) and the gain on change in fair value of a foreign exchange forward contract of approximately RMB0.6 million in the year of 2015.

Impairment loss recognised on goodwill

Due to the recession of consumable market in the PRC, the retail outlets business had suffered an operating loss during the year. The Directors believe that the recoverable amount of the CGU as at 31 December 2016 is lower than the carrying amount of the CGU. As such, impairment loss on goodwill of approximately RMB17.8 million (2015: Nil) was recognised.

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 a decrease of approximately 24.5%, from approximately RMB92.4 million for FY2015 to approximately RMB69.8 million for FY2016. The decrease resulted from reduction in advertisement and marketing expenses.

As a percentage of turnover, selling and distribution expenses were 15.8% and 18.9% for FY2015 and FY2016 respectively.

Administrative and Other Operating Expenses

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

Administrative and other operating expenses were approximately RMB35.8 million for FY2016, representing a reduction of approximately RMB2.1 million or approximately 5.5% as compared to approximately RMB37.9 million for FY2015. The reduction in administrative and other operating expenses mainly reflected the decrease in staff cost and professional expenses for our Group.

As a percentage of turnover, administrative and other operating expenses were 6.5% and 9.7% for FY2015 and FY2016 respectively.

Finance Costs

As a result of the decrease in short-term bank borrowings, finance costs decreased by approximately RMB0.5 million, from approximately RMB3.1 million for FY2015 to approximately RMB2.6 million for FY2016.

Income Tax Expenses

Income tax expenses decreased from approximately RMB41.6 million for FY2015 to approximately RMB11.4 million for FY2016. The effective tax rate was (7.1)% for FY2016, which was comparable to 57.8% for FY2015. Currently, our principal subsidiaries in China are subject to an enterprise income tax rate of 25.0%.

(Loss)/profit for the Year

As a result of the foregoing, loss for FY2016 approximately RMB144.4 million was recorded as compared to the profit for FY2015 approximately RMB30.3 million.

Working Capital Management

We possess sufficient cash to meet liquidity requirements and for strategic alliances and acquisitions, if any. As of 31 December 2016, our cash and cash equivalents, and bank deposits totaled approximately RMB225.0 million (31 December 2015: approximately RMB501.3 million), representing more than 30% (31 December 2015: 50%) of the total amount of our current assets.

Current ratio and quick ratio were 7.9 times and 6.9 times, respectively, as at 31 December 2016, as compared to 7.5 times and 7.1 times, respectively, as at 31 December 2015.

Inventories

Our inventories increased by approximately RMB37.6 million, from approximately RMB43.2 million as of 31 December 2015 to approximately RMB80.8 million as at 31 December 2016. Inventories mainly comprised raw materials of approximately RMB3.5 million (31 December 2015: approximately RMB2.9 million), work in progress of approximately RMB1.9 million (31 December 2015: approximately RMB2.7 million) and finished goods of approximately RMB75.4 million (31 December 2015: approximately RMB37.6 million). The inventory turnover was 63 days for FY2016 (FY2015: 42 days).

Written down on inventories of RMB16.0 million are recorded due to allowance made for obsolete and slow-moving inventory items as the net realisable value for such inventories based primarily on the estimated subsequent selling prices and salability of inventories.

Trade Receivables

Trade receivables increased by approximately RMB63.9 million, from approximately RMB251.1 million as of 31 December 2015 to approximately RMB315.0 million as of 31 December 2016.

Trade receivables turnover was 285 days for FY2016, (FY2015: 169 days).

Impairment losses in respect of trade receivables of RMB7.8 million are recorded due to the management of the Company after taking into consideration the current credit worthiness, the past collection history, the aged status and the prevailing market conditions. 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 increased from approximately RMB4.6 million as of 31 December 2015 to approximately RMB6.1 million as of 31 December 2016. Trade payables turnover was 6 days for FY2016 (FY2015: 10 days).

LIQUIDITY AND FINANCIAL RESOURCES

We utilised 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 FY2016 and FY2015:

	FY2016 ***RMB'000***	FY2015 *RMB'000*
Net cash (used in)/generated from operating activities	**(239,002)**	89,468
Net cash used in investing activities	**(185,496)**	(86,552)
Net cash (used in)/generated from financing activities	**(6,780)**	11,612
Net (decrease)/increase in cash and cash equivalents	**(431,278)**	14,528
Cash and cash equivalents at 1 January	**446,244**	432,384
Effect of foreign exchange rate changes	**(2,425)**	(668)
Cash and cash equivalents at 31 December	**12,541**	446,244

We were in net cash position as of 31 December 2016, and our gearing ratio was 6.1% as of 31 December 2016 (31 December 2015: 6.1%).

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

FINANCIAL RISK MANAGEMENT

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 adequacy and effectiveness.

Except for operations of our Company and other investment holding companies outside the PRC, 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 insignificant.

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

CAPITAL COMMITMENTS

As of 31 December 2016, capital expenditure contracted but not provided for was approximately RMB7.7 million (31 December 2015: approximately RMB19.6 million).

CONTINGENT LIABILITIES

Our Group did not have any significant contingent liabilities as of 31 December 2016 and 2015.

PLEDGE OF ASSETS

As of 31 December 2016, pledged bank deposits, certain properties and lease prepayments totalled approximately RMB18.0 million (31 December 2015: approximately RMB14.8 million) were pledged for certain bank loans.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Our Group had entered into a joint venture (the "**JV**") agreement (the "**JV Agreement**") with the Xiamen Company for the establishment of a JV company (the "JV **Company**") on 5 December 2016. Pursuant to the JV Agreement, the JV Company shall be owned as to 45% by our Group and 55% by the Xiamen Company. For further details, please refer to the separate announcement of the Company dated 5 December 2016.

Saved as disclosed above, our Group made no other significant investments, material acquisitions or disposal during the year ended 31 December 2016.

INVESTMENTS HELD IN FOREIGN CURRENCY AND HEDGING

For FY 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

The Company was successfully listed on the Stock Exchange on 15 January 2014. The total net proceeds from 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 2016, our Group had utilised the Net Proceeds as set out below:

	Percentage to the net proceeds *(Note 1)*	**Net proceeds** *RMB'million*	**Utilised amount** *RMB'million*	**Unutilised amount** *(Note 2)* *RMB'million*
Establish self-operated retail stores	32.1%	91.5	58.3	33.2
Enhance design and research and development capabilities in our design center in Shanghai	1.1%	3.3	3.3	—
Recruit at least 30 additional design and research and development staff	4.2%	12.0	1.3	10.7
Establish an ERP system	9.5%	27.0	24.2	2.8
Marketing and promotional activities	22.9%	65.2	40.9	24.3
Working capital and general corporate purposes	30.2%	86.0	15.7	70.3
	100.0%	285.0	143.7	141.3

Notes:

(1) There had been some changes in the use of the Net Proceeds as compared with the original allocation made. For further details, please refer to the separate announcements of the Company dated 18 March 2015 and 7 October 2016.

(2) The unutilised Net Proceeds have been placed in short-term deposits with licensed banking institutions in the PRC.

EMPLOYEES AND REMUNERATION POLICIES

The emolument policy of our Group aims 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 31 December 2016, we employed around 600 full-time employees. The total staff costs for FY2016 was approximately RMB41.1 million (FY2015: approximately RMB45.8 million).

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

Neither our Company nor any of its subsidiaries has purchased, sold or redeemed any of our Company's listed securities during FY2016.

SUBSEQUENT EVENTS

As at 20 January 2017, a subsidiary of the Company had injected RMB45.0 million to the JV Company as 45% of the share capital of the JV Company. For the details of the JV Company, please refer to the Company's announcement dated 5 December 2016.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance and has steered its development and protected the interests of its shareholders in an enlightened and open manner. During FY2016, the Board comprised three executive Directors and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code (the "**CG Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). During FY2016, 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 A.6.7 provides that non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Zhu Wenxin, the ex-independent non-executive Director during FY2016, did not attend the annual general meeting of the Company held on 22 September 2016 due to other business commitments.

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 FY2016, 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has 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 regarding Directors' securities transactions. 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 FY2016.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") was established for the purposes of reviewing and providing supervision over the Group's financial reporting process, internal controls and risk management. The Audit Committee has reviewed our consolidated financial statements for FY2016 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 does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil).

PUBLICATION OF ANNUAL RESULTS

This announcement of annual results is published on the website of the Company (www.redkids.com) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk). The 2016 Annual Report 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 despatched to the shareholders of the Company and published on the website of the Company and the Hong Kong Stock Exchange in due course.

APPRECIATION

The Board would like to express its sincere appreciation to the shareholders, customers, suppliers, management team and staff for their continued support to the Group.

On behalf of the Board
Miko International Holdings Limited
Ding Peiji
Chairman

Hong Kong
30 March 2017

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, Ms. Lo Wing Yan, Emmy and Mr. Chan Wai Wong