MIKO INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 01247

2013
ANNUAL REPORT

www.redkids.com

Contents

Corporate Information

EXECUTIVE DIRECTORS
Mr. Ding Peiji *(appointed on 15 March 2013)*
Mr. Ding Peiyuan *(appointed on 16 December 2013)*
Ms. Ding Lizhen *(appointed on 16 December 2013)*
Mr. Gu Jishi *(appointed on 16 December 2013)*

INDEPENDENT NON-EXECUTIVE DIRECTORS
(all appointed on 16 December 2013)
Mr. Leung Wai Yip
Mr. Mei Wenjue
Mr. Zhu Wenxin

AUDIT COMMITTEE[1]
Mr. Leung Wai Yip *(Chairman)*
Mr. Mei Wenjue
Mr. Zhu Wenxin

REMUNERATION COMMITTEE[1]
Mr. Mei Wenjue *(Chairman)*
Mr. Zhu Wenxin
Mr. Ding Peiyuan

NOMINATION COMMITTEE[1]
Mr. Zhu Wenxin *(Chairman)*
Mr. Leung Wai Yip
Mr. Gu Jishi

JOINT COMPANY SECRETARIES
(all appointed on 16 December 2013)
Mr. Ng Cheuk Him *HKICPA, HKICS*
Ms. Lu Yanping

AUTHORIZED REPRESENTATIVES
Mr. Ding Peiji
Mr. Ng Cheuk Him *HKICPA, HKICS*

REGISTERED OFFICE
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Note 1 Established on 16 December 2013, with all members appointed on the same day

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1601, Ho King Commercial Centre
2-16 Fa Yuen Street
Mong Kok, Kowloon
Hong Kong

HEADQUARTERS AND PLACE OF BUSINESS IN THE PRC

No. 168, Chong Rong Street
Economic Technology Development Zone
Quanzhou City
Fujian Province 362005
PRC

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company
(Cayman) Limited
4th Fl., Royal Bank House
24 Shedden Road, PO Box 1586
Grand Cayman KY1-1110
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

AUDITOR

KPMG, Certified Public Accountants

LEGAL ADVISER AS TO HONG KONG LAW

Orrick, Herrington & Sutcliffe

COMPLIANCE ADVISER

RHB OSK Capital Hong Kong Limited

COMPANY'S WEBSITE

www.redkids.com

Chairman's Statement

Chairman's Statement

On behalf of the board of the Company (the "Board"), I am pleased to present the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2013.

For the year ended 31 December 2013 ("FY2013"), the world economy staged a trend of recovery, though in a very slow pace. Numerous uncertainties about the prospect of the global economy still existed as a result of the lingering impacts of the previous global financial crisis. In this context, as the second largest economy of the world, China can hardly remain intact. The gross domestic product realized a growth of 7.7% for the entire year, being the 3rd consecutive year with a deceleration in growth rate and the lowest growth rate for the last fourteen years. The total retail sales of consumer goods of China amounted to RMB23.4 trillion, representing a year-on-year growth of 13.1%, representing a decrease in growth rate of 1.2 percentage points from year 2012.

The apparel industry was exposed to both challenges and opportunities in FY2013. On one hand, amid the backdrop of a market-oriented economy, numerous industry participants and a highly diversified industry resulted in a keen competitive market. Price competition and destocking were seen as a result of excessive capacity. Sustained product homogeneity, insufficient differentiation, rising costs and lack of design capability are going to be the challenges exposed to the apparel industry. On the other hand, it is highly welcome that the apparel industry of China continued to maintain its growth momentum given the growth in the national economy and the ever increasing of the level of per capita consumption.

As a sub-sector of the apparel industry, the children's apparel industry achieved a particularly significant year-on-year growth in its annual sales volume. The children's apparel industry is still in its growing stage. Thanks to the "selective two-child" policy launched by the Central Government of China at the end of 2013, the children's apparel market will be endowed with tremendous expansion and there will be an extensive prospect for the future development. Operating in the children's apparel industry of China with such great potential, our Group will build on our existing competition edges, further strengthen our Group's position as one of the leading companies in the children's apparel market through initiatives such as upgrading our Group's products, increasing product varieties, optimizing industry chain structure and expanding sales network.

15 January 2014 is a memorable day to our Group as the Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Accessing to the capital market implied that we have stepped into a brand-new stage of development and has different sources of capital for our business expansion in future.

With the unremitting efforts of all our colleagues, our Group achieved stable business growth and recorded a sustained and favorable result in FY2013. Turnover of our Group amounted to approximately RMB661.4 million for FY2013, representing an increase of 27.2% over RMB520.0 million of last year. In FY 2013, our Group realized an annual profit of RMB129.6 million, representing an increase of 12.3% over RMB115.4 million of last year and it surpassed the forecasted annual profit of no less than RMB124.2 million as indicated in the prospectus of the Company dated 31 December 2013 (the "Prospectus").

As a leading participant in the mid-to-high end children's apparel market in China, our "redkids" brand maintained robust growth in both turnover and sales volume in recent years. For sales channels and distribution network, as at 31 December 2013, the distributors and sub-distributors of our Group operated a total of more than 600 retail outlets for trading our brand products throughout most of the provinces and municipalities of China. "redkids" enjoyed an extremely strong brand recognition and exposure in the third- and fourth-tier cities. Therefore, as strategic growth concerned, our Group continues to focus on deploying its presence in the less competitive markets of the third- and fourth-tier cities. In addition, our Group opened its first self-operated retail outlet in August 2013 as a model store to enhance our brand recognition and optimize our terminal operation capability.

In recent years, the styles of children's apparel have flourished. In order to satisfy the ever-changing demands and preference of consumers in the children's apparel market and command the development trend of children's apparel, we increased our investment in the research and development to RMB5.8 million in FY2013, which was more than twice of that of last year. With our strong design and product development capability, our Group has launched a wide variety of high-quality, functional and comfortable children's apparel products, totaling 630 SKUs, representing an increase of 78 SKUs than that of the financial year ended 31 December 2012 ("FY2012").

Two distinct in-trend themes, namely Sky-trip and Poncho South American, was launched in 2014 Spring/Summer sales fair of our Group held in August 2013. The total quantity of purchase orders received from 2014 Spring/Summer sales fair recorded a double digital growth as compared to that of last year.

Our Group has implemented a channel diversified development strategy since 2010, which combines the offline hypostatic stores with online e-commerce platforms. In FY2013, our authorized online distributor achieved a robust growth in the turnover of online sales. Our Group is currently negotiating and discussing with a number of ERP system providers for the ERP system that meets our requirements, in order to continuously expand our retail network and strengthen our comprehensive management capability as to the aspects such as purchase and sales, financial management and inventory.

In FY2013, our Group was awarded the "Top Ten Brands for Children's Apparel in China" (中國十大童裝名牌) by the Children's Apparel Research and Design Center (童裝研究設計中心) of the China National Garment Association (中國服裝協會), and was recognized as an "Excellent Enterprise for Trustworthy Quality in China" (全國質量誠信優秀企業) by the China Quality Inspection Association (中國質量檢驗協會). We were so much grateful and encouraged by the recognition from industry authorities.

Looking forward to 2014, leveraging on our established competitive edge, we will continue to strengthen our position as a leading mid-to-high end children's apparel brand. To cater for the needs of the children's apparel market, our Group will continue to enhance our design and research and development capabilities, to increase our product categories and quantity, to introduce more quality, diversified and safe-enhanced children's health apparel. We plan to gradually expand the coverage of our self-operated retail outlets to enhance our brand recognition and to continue the expansion of our distribution network and online sales. In addition, we will also further promote our "redkids" brand as well as improve our marketing and promotion strategies, together with the implementation of the ERP management information system, so as to manage our value chain and distribution network more effectively. We are highly optimistic about the long-term development of the industry. With the above initiatives, we are confident that we will make further achievement in order to reward for the supports from our shareholders ("Shareholders"), colleagues and partners.

Ding Peiji
Chairman

25 March 2014

Management Discussion and Analysis

Management Discussion and Analysis

BUSINESS REVIEW

Our "redkids" brand is one of the leading mid-to-high end children's apparel brands in China. Our "redkids" brand has strong recognition and appearance in third- and fourth-tier cities, which have achieved substantial economic growth in recent years. We believe less competition and low level of market presence for mid-to-high end children's apparel brand in third- and fourth-tier cities as compared to first- and second-tier cities allow us to continue to enhance the recognition of our "redkids" brand and to grasp market share.

Sales Channel and Distribution Network

We sell substantially all our products on a wholesale basis to our distributors and a designated on-line distributor, who in turn sell our products to end customers, their sub-distributors or through on-line sales platforms. On the other hand, we plan to gradually increase the proportion of our self-operated retail outlets. We have established our first self-operated retail outlet in August 2013 and target to establish no more than 50 self-operated retail outlets by the end of 2014.

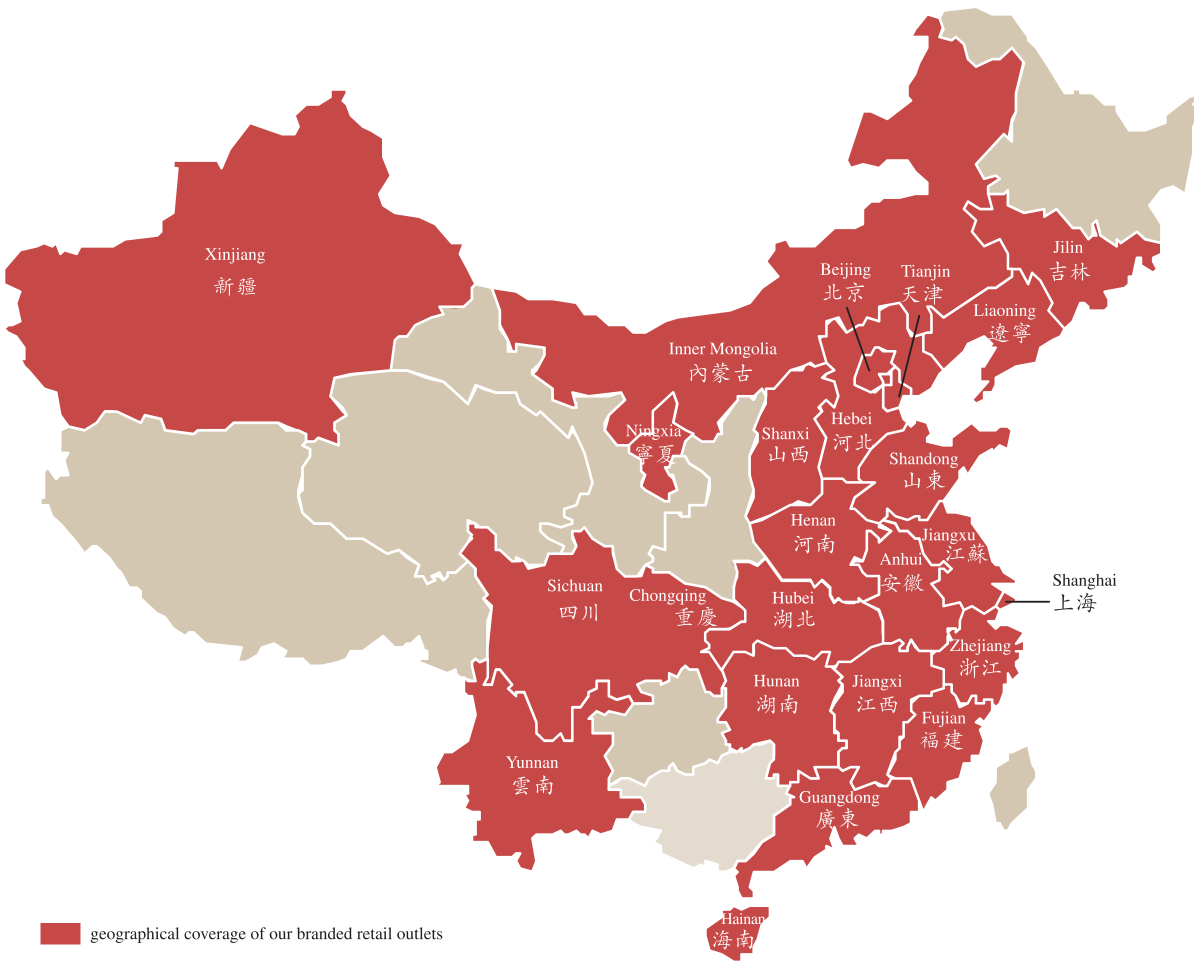
Our distributors and their sub-distributors are only authorized to sell our products at their retail outlets. There were 601 retail outlets, covering 24 provinces and municipalities in China as of 31 December 2013. These 601 retail outlets comprised 284 shopping mall outlets and concessions, and 317 street shops. The following table sets forth a breakdown of our branded retail outlets by distribution channel and city type.

	As at 31 December	
	2013	2012
Shopping mall outlets and concessions	**284**	268
Street shops	**317**	326
	601	594

	As at 31 December	
	2013	2012
First-tier cities Note 1	**94**	67
Second-tier cities Note 1	**74**	109
Third-tier cities Note 1	**48**	167
Fourth-tier cities Note 1	**385**	251
	601	594

Note 1: Please refer to the Prospectus of the Company dated 31 December 2013 for the definitions of these city types

The following chart illustrates our distribution map at the date of this report:



Sales made to our designated on-line distributor, which in turn resells our products to end customers through online sales platforms such as Taobao（淘寶）, VIPShop（唯品會）and V+, recorded an impressive growth during the past few years. Going forward, we will continue to collaborate with our on-line distributor and different online sales platforms to promote our "redkids" brand. We also plan to showcase certain on-line products at our self-operated stores for potential customers to experience those products physically.

During FY2013, sales to our largest and five largest customers accounted for approximately 18.6% and 49.5%, respectively, of total turnover (FY2012: 16.9% and 46.3%, respectively).

Management of our distributors

Maintaining our brand image and recognition is critical to our success. Accordingly, we regularly organize mandatory training sessions on product knowledge and retail outlet operations to our distributors and their sales personnel to ensure they understand our brand culture and maintain our brand image in their daily operation. We have retail management team to supervise all retail outlets. From time to time, our retail management team conducts site visits to retail outlets to provide training and assistance to our distributors.

In view of continuing our retail network expansion, we recognize the importance of ERP system to enhance our overall management in sales, inventory, financial management, production and logistics. We are now in the discussion with several ERP system vendors, who have capability to design functional ERP system that fits our need. We plan to install the ERP system at our self-operated retail outlets first and gradually require our distributors and sub-distributors to install it.

Product Design and Development

We offer a wide range of children's apparel under "redkids" brand primarily for children from 3 to 12 years of age. We offer high-quality, functional and comfortable products to meet different consumer preferences, and to distinguish ourselves from our competitors. Our design and development team possesses the requisite expertise and experience to identify and respond quickly to children's apparel trends in China. During FY2013, we incurred research and development expenses of RMB5.8 million and introduced 630 SKU (FY2012: RMB2.8 million and 552 SKU, respectively).

Sales Fairs

We generally organize two sales fairs, namely, Spring/Summer ("S/S") sales fair and Fall/Winter ("F/W") sales fair, each year, and the sales orders collected from these two sales fairs account for substantial of our turnover of each year.

2014 F/W sales fair was held in late March this year.

Production and outsourcing

We manufactured a portion of our products at our production facilities in Quanzhou, Fujian Province with gross floor area of over 20,000 square meters, and outsourced the remaining to original equipment manufacturers ("OEMs"). Currently, we do not intend to expand our production facilities partially because of the shortage and increasing cost of labour force in China. In addition, we believe our allocation of more resources on brand management and sales and marketing would contribute more value to our business. We will continue to increase the proportion of outsourcing of our products to qualified OEMs. We have set different evaluation and assessment criteria, such as experience, reputation, production capability, etc, for OEMs selection. We outsource to OEMs the manufacturing of products which we do not have the requisite technologies and machineries to produce, and also those products which we consider more cost-efficient for OEMs to manufacture. We apply our manufacturing experience and refer to publicly available prices of raw materials applicable to the fabrics used in our products to assess and examine the reasonableness of our OEM's quotes.

The proportion of products that were manufactured by our own production facilities and by outsourcing was approximately 26.0% and 74.0%, respectively in FY2013, as compared to that of approximately 50.0% and 50.0%, respectively, in FY2012. During FY2013, purchases from our largest and five largest OEMs and raw materials suppliers accounted for approximately 12.6% and 47.7%, respectively, of our total purchase (FY2012: 10.4% and 43.1%, respectively).

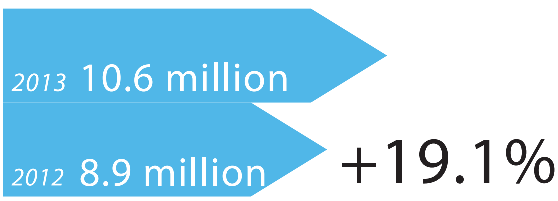
FINANCIAL REVIEW

Turnover

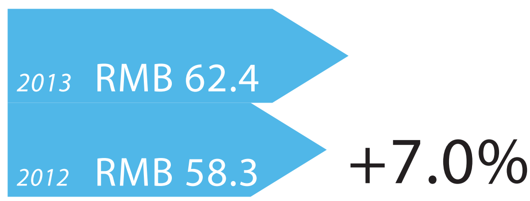
Our turnover increased by approximately 27.2%, from RMB520.0 million for FY2012 to RMB661.4 million for FY2013. Due to the enhancement of brand recognition and market acceptance of our products, we recorded an increase from approximately 8.9 million for FY2012 to approximately 10.6 million for FY2013 in volume of products we sold to our distributors and on-line distributor, and the average wholesale selling price of our products also increased from RMB58.3 to RMB62.4 for the same periods. The table below sets forth sales volume and average wholesale selling price for the year indicated:

	FY2013	FY2012	% change
Sales volume (million units)	**10.6**	8.9	+ 19.1
Average wholesale selling price (RMB)	**62.4**	58.3	+ 7.0

Sales volume



Average wholesale selling price



Sales of apparel products accounted for substantial of our turnover. Sales of footwear and accessories products in FY2012 represented the remaining products from the terminated footwear and accessories production lines in 2011. We had neither production nor sales of footwear and accessories products in FY2013. The table below sets forth our revenue by product/service category for the year indicated:

	FY2013		FY2012		% change
	RMB'000	%	RMB'000	%	
Apparel	**660,781**	**99.9**	515,898	99.2	+ 28.1
Accessories	**—**	**—**	378	0.1	N/A
Footwear	**—**	**—**	969	0.2	N/A
OEM services	**635**	**0.1**	2,742	0.5	–76.8
	661,416	**100.0**	519,987	100.0	+ 27.2

Sales to distributors contributed the most of our turnover for both FY2013 and FY2012. On the other hand, through our distinct designs tailored for the online consumer group and our marketing efforts in collaboration with our on-line distributor and different on-line sales platforms, our on-line customer base expanded rapidly and we were able to record a significant increase in sales to on-line distributor in FY2013.

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

	FY2013		FY2012		% change
	RMB'000	%	RMB'000	%	
Sales to distributors	**537,576**	**81.3**	429,418	82.6	+ 25.2
Sales to on-line distributor	**122,950**	**18.6**	87,827	16.9	+ 40.0
Sales from self-operated store	**255**	**0.01**	—	—	N/A
OEM services	**635**	**0.09**	2,742	0.5	–76.8
	661,416	**100.0**	519,987	100.0	+ 27.2

Cost of Sales

Our cost of sales increased by approximately 23.8%, from RMB324.2 million for FY2012 to RMB401.3 million for FY2013. The increase was generally in line with the increase in turnover. During FY2013, we further increased the proportion of outsourcing by engaging qualified OEMs to produce our products. During FY2013, purchase from OEMs was around RMB295.9 million, representing approximately 73.7% of total cost of sales, as compared to RMB162.5 million, representing approximately 50.1% of total cost of sales for FY2012.

Gross Profit and Gross Profit Margin

Our gross profit was RMB260.1 million and RMB195.8 million, respectively, for FY2013 and FY2012, and gross profit margin for the same year was 39.3% and 37.7%, respectively. Due to our enhanced brand recognition and cost control, we were able to achieve a higher gross profit margin in FY2013.

Other Revenue and Other Net (Loss)/Income

Other revenue primarily consist of interest income from bank deposits, apparel sample creation fee and government grants in relation to tax refund. The increase in other revenue was mainly driven by the increase in apparel sample creation fee of RMB0.6 million and government grant of RMB0.6 million.

Other net loss for FY2013 represented the net foreign exchange loss.

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. There was no marketing rebate for sales made to on-line distributor, which contributed a higher percentage of total turnover in FY2013. As such, selling and distribution expenses for FY2013 recorded a slightly decrease of 5.1%, from RMB49.5 million for FY2012 to RMB47.0 million even though there was an increase in total turnover. As a percentage of turnover, selling and distribution expenses were 7.1% for FY2013 (FY2012: 9.5%).

Administrative and Other Operating Expenses

Administrative and other operating expenses primarily consist of research and development, salaries and benefits for administrative personnel, professional expenses in relation to legal and financial advisory services, taxes and levies, and listing expenses. Administrative and other operating expenses were RMB32.3 million for FY2013, representing an increase of RMB19.1 million as compared to RMB13.2 million for FY2012. As a percentage of turnover, such expenses also increased from 2.5% to 4.9%. The sharp increase in administrative and other operating expenses mainly reflected the increase in listing expenses of approximately RMB12.5 million relating to legal, financial advisory and other professional services in relation to the listing of the Company on the Main Board of the Stock Exchange in January 2014, and research and development expenses of RMB3.0 million.

Finance Costs

Finance costs increased by RMB1.8 million, from RMB2.5 million for FY2012 to RMB4.3 million for FY2013. The increase was primarily due to the increase in short-term bank borrowings for working capital purposes.

Income Tax

Income tax increased from RMB15.3 million for FY2012 to RMB47.6 million for FY2013. The effective tax rate was 11.7% and 26.8%, respectively, for FY2012 and FY2013. The increase in both income tax expenses and effective tax rate was primarily due to the expiration of the preferential enterprise income tax rate of 12.5% for our principal subsidiary in China in FY2013.

Profit for the Year

As a result of the foregoing, our profit for the year increased from RMB115.4 million for FY2012 to RMB129.6 million for FY2013. Net profit margin was 19.6% for FY2013, as compared to 22.2% for FY2012.

Working Capital Management

As of 31 December 2013 and 2012, we recorded net current assets of RMB274.9 million and RMB189.3 million, respectively. Current ratio were 2.0 times and 2.4 times, respectively, as of 31 December 2013 and 2012.

Inventories

Our inventories increased by RMB10.9 million or 39.1%, from RMB27.9 million as of 31 December 2012 to RMB38.8 million as of 31 December 2013, primarily as a result of an increase in our 2014 Spring and Summer collections products which were scheduled to be delivered to distributors in January 2014. Notwithstanding the increase in the balance of inventories as of 31 December 2013, the average inventory turnover decreased from 62 days for FY2012 to 30 days for FY2013.

Trade Receivables

Trade receivables represented the receivables for goods sold to our distributors and on-line distributor, and receivables from the shopping mall where our self-operated store is located. Trade receivables increased from RMB201.8 million as of 31 December 2012 to RMB235.9 million as of 31 December 2013. The increase was generally in line with the increase in our turnover for FY2013.

Trade receivables turnover was 121 days for FY2013, as compared to 111 days for FY2012. The aging of our trade receivables as of 31 December 2013 was still healthy even though there was an increase in trade receivables turnover days for FY2013. Approximately 99.9% or RMB235.7 million of our trade receivables were due within 3 months, which was the credit period we gave to our distributors and on-line distributor. We continue to conduct comprehensive review of our distributors' repayment histories, resources and financial capabilities to ensure that they are able to repay the debt within the credit period.

Trade and Bills Payables

Trade and bills payables increased from RMB11.1 million as of 31 December 2012 to RMB16.0 million as of 31 December 2013. Trade and bills payables turnover was 12 days for FY2013, which was comparable to 11 days for FY2012.

Liquidity and Financial Resources

Our primary uses of cash are to fund our working capital requirements, purchase of property, and to repay bank borrowings. Our fund is generally generated from our operations and short-term bank borrowings. In the year 2014 and going forward, we believe that our liquidity requirements will be satisfied with a combination of cash flows generated from operation, bank borrowings, and net proceeds from the listing of the Company's shares on the Main Board of the Stock Exchange in January 2014.

The following table sets forth our cash flows for FY2013 and FY2012.

	FY2013 RMB'000	FY2012 RMB'000
Net cash generated from operating activities	**179,190**	15,137
Net cash (used in)/generated from investing activities	**(52,701)**	145
Net cash generated from/(used in) financing activities	**124,703**	(10,392)
Net increase in cash and cash equivalents	**251,192**	4,890
Cash and cash equivalents at 1 January	**8,894**	4,004
Effect of foreign exchange rate changes	**(7)**	—
Cash and cash equivalents at 31 December	**260,079**	8,894

As of 31 December 2013, our cash and cash equivalents, and pledged bank deposits totalled RMB260.0 million (2012: RMB12.8 million). As of 31 December 2013, we had short-term bank borrowings of RMB76.9 million (2012: RMB38.8 million), which were denominated in Renminbi and repayable within 12 months.

We were in net cash position as of 31 December 2013, and our gearing ratio was only 20.7% as of 31 December 2013 (2012: 16.4%).

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 and bills payables turnover days equal to the average of the opening and closing balances of trade and bills 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) Gearing ratio equals to total of bank and other borrowings divided by total equity as of the end of the year

Treasury Policy and Market Risks

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

Our interest rate risk arises primarily from bank borrowings. Our foreign currency risk arises primarily from our non-RMB monetary assets if there is an appreciation of RMB. We will continue to closely monitor our loan and monetary assets portfolio and will consider if there is a need to hedge against significant interest rate and foreign currency exposures when necessary. Presently, we have not entered into any interest rate or foreign currency contracts.

Capital commitments

As of 31 December 2013, capital expenditure contracted but not provided for was approximately RMB67.3 million (2012: Nil). The capital commitments primarily relate to the purchase of a property in Shanghai for our research and development.

Contingent Liabilities

The guarantees provided by Red Kids (China) Co., Ltd, a subsidiary of our Group, in respect of certain bank loans made to third parties and related parties as at 31 December 2012 were all released during FY2013.

Pledge of Assets

As of 31 December 2013, pledged bank deposits, certain properties and lease prepayments totalled RMB11.5 million (2012: RMB12.4 million) were pledged for the banking facilities.

Employees and remuneration policies

The emolument policy of the Group is aimed at attracting, retaining and motivating talent individuals. The principle is to have performance based remuneration which reflects market standards. Remuneration package for each employee is generally determined based on his or her job nature and position with reference to market standards. Our emolument policy will be adjusted depending on a number of factors, including changes to the market practice and stages of our business development, so as to achieve our operational targets. As at 31 December 2013, we employed around 620 full-time employees. The total staff costs for FY2013 was approximately RMB30.9 million (FY2012: RMB34.9 million).

As at 31 December 2013, the coverage rate for our Group's employees in relation to the contribution of the mandatory social insurance, and the housing funds and housing benefits (the "social insurance and housing funds") in the PRC was only 8.7% and 6.4%, respectively, which were lower than the expected coverage rate of 30.0% and 25.0%, respectively, as disclosed in the paragraph headed "Non-Compliance" of the section headed "Business" in the Prospectus. The reason for the failure of achieving the expected coverage rate was mainly due to the unwillingness and non-cooperation of some of our employees.

Notwithstanding, our Group has provided sufficient provision in relation to the unpaid social insurance and housing funds as at 31 December 2013 and our Group will settle the unpaid social insurance with any employee who demands such payment in the future. At the date of this report, our Group is also in the discussion with relevant authorities to hold different talks and exhibitions to raise our employees' awareness with regard to the social insurance and housing funds.

Use of Proceeds from the Global Offering

The Company was successfully listed on the Main Board of the Stock Exchange by way of international placing and Hong Kong public offering (the "Global Offering") of 160,000,000 new shares at the offering price of HK$2.28 per share on 15 January 2014. An additional 24,000,000 new shares were allotted and issued at the offering price of HK$2.28 per share under the over-allotment option (the "Over-allotment") by the Company on 22 January 2014.

The total net proceeds from the Global Offering and the Over-allotment after deducting the underwriting commissions and other estimated offering expenses payable by the Company amounted to approximately HK$359.0 million.

Our Group has not yet utilized the net proceeds as at the date of this annual report. The unutilized net proceeds have been placed in short-term deposits with licensed banking institutions in Hong Kong and China.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance and has steered its development and protected the interests of its Shareholders in an enlightened and open manner. The Board comprises four executive Directors and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code ("Code Provisions") set out in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange. As the shares of the Company were not yet listed on the Stock Exchange until 15 January 2014 (the "Listing Date"), the Code Provisions were not applicable to the Company in the period under review. Throughout the period since the Listing Date and up to the date of this report, the Company has complied with the Code Provisions, except for code provision A.2.1, which provides that, among other things, the role of chairman of the board and the chief executive officer of a listed issuer shall be separate and shall not be performed by the same individual.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Directors have adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in dealing in the Company's securities. As the shares of the Company were not listed on the Main Board of the Stock Exchange until 15 January 2014, the Model Code was not applicable to the Company in the period under review. Specific enquiries have been made to all Directors and all Directors have confirmed that they have fully complied with the required standard of dealings as set out in the Model Code since the Listing Date and up to the date of this report.

BOARD OF DIRECTORS

The Board is committed to providing effective and responsible leadership for the Company. The Directors, individually and collectively, must act in good faith in the best interests of the Company and its Shareholders. The Board has established three Board committees, being the Audit Committee, the Remuneration Committee and the Nomination Committee (each a "Board Committee" and collectively the "Board Committees"), to oversee different areas of the Company's affairs.

The Board currently comprises four executive Directors, namely Mr. Ding Peiji, Mr. Ding Peiyuan, Ms. Ding Lizhen, Mr. Gu Jishi and three independent non-executive Directors, namely, Mr. Leung Wai Yip, Mr. Mei Wenjue and Mr. Zhu Wenxin.

Their biographical details and (where applicable) their family relationships are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 32 to 34 in the annual report. A list of the Directors identifying their role and function and whether they are independent non-executive Directors are available on the Company's website.

The Board sets the Group's overall objectives and strategies, monitors and evaluates its operating and financial performance and reviews the corporate governance standard of the Group. It also decides on matters such as annual and interim results, major transactions, director appointments or re-appointments, investment policy, dividend and accounting policies. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's businesses to the executive Directors and members of senior management. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate.

The Board is also responsible for developing, reviewing and monitoring the policies and practices on corporate governance and legal and regulatory compliance of the Group, and the training and continuous professional development of Directors and senior management. The Board also reviews the disclosures in the Corporate Governance Report to ensure compliance.

All Board members have separate and independent access to the Group's senior management to fulfill their duties. Independent professional advice can be sought to assist the relevant Directors to discharge their duties at the Group's expense upon their request.

All Directors are required to declare to the Board upon their first appointment, the directorships or other positions they are concurrently holding at other companies or organizations. These interests are updated on an annual basis and when necessary.

BOARD MEETINGS

The Board has only held one Board meeting during the year ended 31 December 2013 since the Company only became listed on the Main Board of the Stock Exchange on 15 January 2014. The attendance of each Director at the Board meeting is set out below:

Name of Director	Attendance/Number of Board Meeting
Mr. Ding Peiji	1/1
Mr. Ding Peiyuan	1/1
Ms. Ding Lizhen	1/1
Mr. Gu Jishi	1/1
Mr. Leung Wai Yip	1/1
Mr. Mei Wenjue	1/1
Mr. Zhu Wenxin	1/1

Subsequent to the year ended 31 December 2013 and up to date of this report, the Board held another Board meeting in March 2014 for the main purposes of approving the annual results of our Group for the year ended 31 December 2013, and formulating business development strategies of our Group. Except Mr. Zhu Wenxin, all Directors have attended such meeting.

DIRECTORS' AND OFFICERS' INSURANCE

Appropriate insurance coverage has been arranged in respect of potential legal actions against the Directors and officers of the Company.

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

All Directors are aware of their responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, in pursuit of the development of the Group. Every newly appointed Director receives a induction to ensure that he has a proper understanding of the business and operations of the Group and that he is fully aware of his duties and responsibilities as a director under applicable rules and requirements.

All Directors are provided with regularly updates on the Company's performance and financial position to enable the Board as a whole and each Director to discharge their duties. In addition, briefings and updates on the latest development regarding the Listing Rules and other applicable regulatory requirements are provided to each of the Directors during Board meetings to ensure compliance and enhance their awareness of good corporate governance practices. In December 2013, the Company, together with its legal adviser, organized a training session to provide each of the Directors with an update on the Listing Rules.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The role of the independent non-executive Directors is to provide independent and objective opinions to the Board, giving adequate control and balances for the Group to protect the overall interests of the Shareholders and the Group. They serve actively on the Board and its committees to provide their independent and objective views.

In compliance with Rules 3.10(1) and 3.10A of the Listing Rules, the Company has appointed three independent non-executive Directors, representing more than one-third of the Board. One of the independent non-executive Directors has the appropriate professional qualifications in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

Each independent non-executive Director has submitted confirmation of his independence to the Company pursuant to rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all of the independent non-executive Directors are independent.

BOARD COMMITTEES

The Board is supported by three committees, namely the Audit Committee, Nomination Committee and Remuneration Committee. Each Board Committee has its defined and written terms of reference approved by the Board covering its duties, powers and functions. Their terms of reference are available on the Company's website.

All Board Committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary.

(i) Audit Committee

The Audit Committee was established on 16 December 2013. The Audit Committee comprises three independent non-executive Directors, namely Mr. Leung Wai Yip, Mr. Mei Wenjue, and Mr. Zhu Wenxin. Mr. Leung Wai Yip, who has appropriate professional qualifications and experience in accounting matters, was appointed as the chairman of the Audit Committee.

The principal responsibilities of the Audit Committee are to assist the Board in providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems and relationship with external auditors of the Group, oversee the audit process and perform other duties and such responsibilities as assigned by the Board. These include reviewing the Group's interim and annual reports.

No meeting was held by the Audit Committee during the year ended 31 December 2013 because the Company only became listed on 15 January 2014. Pursuant to the meetings of the Audit Committee held in January and March 2014, the Audit Committee has reviewed the 2013 annual audit plan submitted by our auditors, KPMG and the consolidated financial statements of the Group for the year ended 31 December 2013, including the accounting principles and practices adopted by the Group and report prepared by the external auditors covering major findings in the course of the audit.

(ii) Remuneration Committee

The Remuneration Committee was established on 16 December 2013. The Remuneration Committee comprises two independent non-executive Directors and one executive Director, namely Mr. Mei Wenjue, Mr. Zhu Wenxin and Mr. Ding Peiyuan. Mr. Mei Wenjue is the chairman of the Remuneration Committee. The principal responsibilities of the Remuneration Committee are to review and make recommendations to the Board on the overall remuneration structure and policy for all Directors and senior management as well as the specific remuneration packages for the executive Directors and senior management and on the establishment of a formal and transparent process for developing such remuneration policy. No Director takes part in any discussion on his own remuneration. The Company's objective for its remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration and fees paid to members of the Board, market rates and factors such as each Director's workload, performance, responsibility, job complexity and the Group's performance are taken into account.

No meeting was held by the Remuneration Committee during the year ended 31 December 2013 and up to the date of this report since the Company only became listed on 15 January 2014.

The remuneration of the members of the senior management of the Group by band for the year ended 31 December 2013 is set out below:

Remuneration bands (HK$)	Number of persons
Nil to 500,000	4

Particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 6 and 7 to the financial statements.

(iii) Nomination Committee

The Nomination Committee was established on 16 December 2013. It comprises two independent non-executive Directors and one executive Director, namely Mr. Zhu Wenxin, Mr. Leung Wai Yip and Mr. Gu Jishi. Mr. Zhu Wenxin is the Chairman of the Nomination Committee. The principal responsibilities of the Nomination Committee are to review the composition of the Board, including its structure, size and diversity at least annually to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Group. It is also responsible to consider and recommend to the Board suitably qualified persons to become a member of the Board, monitor the succession planning of Directors and assess the independence of independent non-executive Directors. The Nomination Committee will also give consideration to the Board Diversity Policy (as defined below) when identifying suitably qualified candidates to become members of the Board, and the Board will review the Board Diversity Policy (as defined below), so as to develop and review measurable objectives for the implementing the Board Diversity Policy (as defined below) and to monitor the progress on achieving these objectives.

No meeting was held by the Nomination Committee during the year ended 31 December 2013 and up to the date of this report since the Company only became listed on 15 January 2014.

CORPORATE GOVERNANCE FUNCTION

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board on 16 December 2013 in compliance with provision D.3.1 of the Code Provisions, which include (a) to develop and review the Company's policies and practices on corporate governance; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the Code Provisions and relevant disclosure in the corporate governance report of the annual report of the Company.

The Board is going to perform the abovementioned corporate governance functions starting from the year of 2014 as the Company only became listed on the Main Board of the Stock Exchange on 15 January 2014.

BOARD PROCEEDINGS

Regular board meetings are held at quarterly intervals with additional meetings convened as and when necessary to discuss the overall strategic directions, the Group's operations, financial performance, and to approve interim and annual results and other significant matters. For regular meetings, Board members are given at least 14 days prior notice and agenda with supporting papers are sent to Directors not less than 3 days before the relevant meeting is held. Directors may propose to the Chairman or the Company Secretary to include matters in the agenda for regular board meetings.

Directors are requested to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at board meetings and abstain from voting in favour of the related board resolutions as appropriate.

Minutes of meetings of the Board and Board Committees are kept by the Company Secretary in sufficient details of the matters considered and decisions reached, including dissenting views expressed, and are open for inspection on reasonable notice by any Director. Draft and final versions of minutes are sent to all Directors for their comments and records respectively within a reasonable time after the board meeting is held.

All Directors have access to the advice and services of the Company Secretary with a view to ensuring the Board procedures are followed.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors of the Company has entered into a service contract with the Company for an initial term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other which notice shall not expire until after the fixed term. Each of the independent non-executive Directors has entered into an appointment letter with the Company for an initial term of three years commencing from the Listing Date. Each of the Directors will be subject to retirement and re-election at annual general meeting of the Company in accordance with the Company's articles of association.

In accordance with the Company's articles of association, a person may be appointed as a Director either by the Shareholders in general meeting or by the Board. Any Directors appointed by the Board as additional Directors or to fill casual vacancies shall hold office until the next following general meeting, and are eligible for re-election by the Shareholders. In addition, all Directors are required to retire by rotation at least once every three years at the annual general meeting, and are eligible for re-election by the Shareholders.

BOARD DIVERSITY POLICY

Pursuant to the CG Code, the Board adopted a board diversity policy (the "Board Diversity Policy") on 16 December 2013. The Company recognizes and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

JOINT COMPANY SECRETARIES

Mr. Ng Cheuk Him and Ms. Lu Yanping, the Joint Company Secretaries of the Company, are full time employee of the Group and have day-to-day knowledge of the Company's affairs. They also serve as the secretary of the Audit Committee, the Nomination Committee and the Remuneration Committee. Mr. Ng Cheuk Him is responsible for advising the Board through the Chairman and/or the Chief Executive Officer on governance matters.

Each of Mr. Ng Cheuk Him and Ms. Lu Yanping is going to comply with the relevant professional training requirements under Rule 3.29 of the Listing Rules starting from the year 2014, as the Company only became listed on the Main Board of the Stock Exchange on 15 January 2014.

The biographical details of the Joint Company Secretaries are set out in the section headed "Biographical Details of Directors and Senior Management" on page 34 in the annual report.

FINANCIAL REPORTING AND INTERNAL CONTROL

Financial reporting

The Board acknowledges its responsibility to prepare the Company's financial statements which give a true and fair view of the Group's state of affairs, results and cash flows for the year and in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, and the disclosure requirements of the Hong Kong Companies Ordinance. The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates. The Board considers that the Group has adequate resources to continue in business for the foreseeable future and not aware of any material uncertainties relating to events or conditions that may affect the business of the Company or cast doubts on its ability to continue as going concern.

The responsibilities of KPMG, the Company's external auditor, with respect to financial reporting are set out in the section headed "Independent Auditor's Report" in this annual report.

Internal controls

The Board recognizes its responsibility to ensure the Company maintains a sound and effective internal control system and the Board has conducted a review of the effectiveness of the internal control system of the Group during the year. The Group's internal control system is designed to safeguard assets against misappropriation and unauthorized disposition and to manage operational risks. Review of the Group's internal controls covering major financial, operational and compliance controls, as well as risk management functions of different systems has been done on a systematic basis based on the risk assessments of the operations and controls. No major issue but areas for improvement have been identified. The Board and the Audit Committee considered that the key areas of the Group's internal control systems are reasonably implemented.

EXTERNAL AUDITOR

KPMG has been appointed as the external auditor of the Company. The Audit Committee has been notified of the nature and the service charges of non-audit services performed by KPMG and considered that such services have no adverse effect on the independence of the external auditor.

During the year ended 31 December 2013, the fees payable to KPMG in respect of its audit services provided to the Group was RMB1.2 million. The total fees payable to KPMG during the year ended 31 December 2013 for the reporting accountant service and internal control review services were approximately RMB3.2 million and RMB0.6 million, respectively.

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor during the year ended 31 December 2013.

COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHTS

The Company aims to, via its corporate governance structure, enable all its Shareholders an equal opportunity to exercise their rights in an informed manner and allow all Shareholders to engage actively with the Company. Under the Company's articles of association, the Shareholder communication policy and other relevant internal procedures of the Company, the Shareholders of the Company enjoy, among others, the following rights:

(i) Participation at general meetings

The general meetings of the Company provide an opportunity for direct communication between the Board and the Shareholders. The Company encourages the participation of the Shareholders through annual general meetings and other general meetings where the Shareholders meet and exchange views with the Board, and to exercise their right to vote at meetings. The Company shall arrange notices of meetings and circulars containing details on proposed resolutions to be sent to the Shareholders no less than 20 business days before the meeting. At general meetings, separate resolutions are proposed on each substantial issue, including the election of individual Directors.

(ii) Enquiries and proposals to the Board

The Company encourages Shareholders to attend Shareholders' meetings and make proposals by either directly raising questions on both operational and governance matters to the Board and Board Committees at the general meetings or providing written notice of such proposals for the attention of the Joint Company Secretaries at the registered office of the Company in Hong Kong currently situated at Room 1601, Ho King Commercial Centre, 2–16 Fa Yuen Street, Mongkok, Kowloon, Hong Kong or via email to louis@redkids.com or catherine@redkids.com.

(iii) Convening extraordinary general meetings

The Directors may, whenever they think fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Directors or the Company Secretary and deposited at the registered office of the Company in Hong Kong currently situated at Room 1601, Ho King Commercial Centre, 2–16 Fa Yuen Street, Mongkok, Kowloon, Hong Kong for the purpose of requiring an extraordinary general meeting to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Directors fail to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the requisitionist(s) by the Company.

There are no provisions under the Company's articles of association or the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands regarding procedures for Shareholders to put forward proposals at general meetings other than a proposal of a person for election as director. Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

The notice of annual general meeting together with the accompanying circular setting out the relevant information as required under the Listing Rules are sent to Shareholders at least 20 clear business days prior to the meeting. Poll voting has been adopted for decision-making at Shareholders' meetings to ensure that each share is entitled to one vote. Details of the poll voting procedures are set out in the circular sent to Shareholders prior to the meeting and explained at the commencement of the meeting. Voting results are posted on the Company's website on the day of the annual general meeting.

(iv) Procedures for proposing a person for election as a Director

Pursuant to the Article 85 of the articles of associations of the Company, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice (as defined therein) signed by a Member (as defined therein) (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that (if the Notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such Notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

CONSTITUTIONAL DOCUMENTS

Pursuant to a special resolution of the Shareholders passed on 27 December 2013, the amended and restated memorandum and articles of association of the Company were adopted with effect from the Listing Date. Save as disclosed above, during the year ended 31 December 2013, there was no change in the memorandum and articles of association of the Company.

The amended and restated memorandum and articles of association of the Company are available on the websites of the Stock Exchange and the Company.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Ding Peiji (丁培基), aged 43, is the founder of our Group. He is also the chief executive officer and the chairman of the Board of our Company. He was appointed as an executive Director on 15 March 2013. He is also the chairman of board of directors of Red Kids (China) Co., Ltd. ("Red Kids China"), a principal operating subsidiary of our Group. Mr. Ding has over 13 years of experience in the apparel and retail industry and is primarily responsible for our overall corporate strategies, planning and business development. His social undertakings include the vice Chairman for the second term of the Children's Wear Expert Committee of China National Garment Association (中國服裝協會童裝專業委員會) appointed in September 2009, the vice president for the first and second term of the Quanzhou Textile & Garments Commerce Chamber (泉州市紡織服裝商會) appointed in May 2002 and November 2008, respectively, a standing council member for the first term of the Federation of Industry & Commerce of Quanzhou Qingmeng Scientific & Technological Industrial Zone (泉州市清濛科技工業園區工商業聯合會) appointed in August 2002, and a Supervisor of Qingmeng Scientific & Technological Industrial Zone for Honest and Efficient Governance (清濛科技工業區勤政廉政監督員) appointed in July 2002. He completed the Advanced Management Programme by China Europe International Business School (中歐國際工商學院) in 2010.

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

Mr. Ding Peiyuan (丁培源), aged 40, was appointed as an executive Director and chief operating officer on 16 December 2013. He is also the vice general manager of Red Kids China. Mr. Ding has over 8 years of experience in the production and sales of apparel and retail industry and is primarily responsible for the formulation and execution of business development strategies of our Group. He completed the Advanced Management Programme by China Europe International Business School (中歐國際工商學院) in 2009.

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

Ms. Ding Lizhen (丁麗真), aged 47, was appointed as an executive Director and vice president on 16 December 2013. She is also the vice general manager of Red Kids China. Ms. Ding has over 13 years of experience in the apparel and retail industry and is primarily responsible for the production management and product development of our Group.

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Leung Wai Yip (梁偉業), aged 37, was appointed as an independent non-executive Director of our Company on 16 December 2013. Currently, Mr. Leung serves as the chief financial officer and company secretary of Chaowei Power Holdings Limited (超威動力控股有限公司), a company listed on the Stock Exchange (stock code: 951) since December 2010. He obtained a bachelor's degree in commerce from the University of Alberta, Canada in June 1998 and a master degree of business administration from the Hong Kong University of Science and Technology in November 2010. He is a member of the American Institute of Certified Public Accountants, and an associate member of the Hong Kong Institute of Certified Public Accountants.

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

Mr. Zhu Wenxin (祝文欣), aged 41, was appointed as an independent non-executive Director of our Company on 16 December 2013. Mr. Zhu has held the position of the chairman of the board of directors System of Expert Consultancy Group (中研國際時尚品牌管理諮詢集團) since 1999. Currently, he also serves as an independent Director of Zuoan Fashion Limited (左岸服飾有限公司), a company listed on the New York Stock Exchange (stock symbol: ZA) and a clothing industry senior consultant of Alibaba (China) Network Technology Co., Ltd. (阿里巴巴(中國)網絡技術有限公司).

SENIOR MANAGEMENT

Mr. Ng Cheuk Him (吳卓謙), aged 39, is the chief financial officer of our Group and was appointed a joint company secretary of our Company on 16 December 2013. Mr. Ng joined our Group in August 2013 and he is primarily responsible for our overall financial management and company secretarial affairs. Prior to joining our Group, he worked as the chief financial officer and company secretary of China Sunshine Paper Holdings Company Limited (stock code: 2002), a company listed on the main board of the Stock Exchange. Prior to such appointment, he held a senior position in BNP Paris Capital (Asia Pacific) Limited, served as managerial position in China Ting Group Holding Limited (stock code: 3398), and was an audit manager in Ernst & Young. Mr. Ng has over 13 years of experience in corporate financial management, accounting and auditing. Mr. Ng is an associate member of the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Chartered Secretaries.

Ms. Ding Wanwan (丁晼晼), aged 39, is the head of the production center of our Group and is primarily responsible for our supply chain management. Ms. Ding joined our Group in March 2000. She completed the training program for senior manager by Executive Development Program Center, School of Management, Xiamen University (廈門大學管理學院高層管理培訓中心) in June 2012.

Ms. Chong Pui Shan (莊佩珊), aged 34, is the design director of our Group. Ms. Chong has approximately 11 years of experience in the design and development of apparel, footwear and accessories, and is primarily responsible for the overall design and development of the products of our Group. Ms. Chong joined our Group in June 2012. Prior to joining our Group, she worked in ABSO Production Company Ltd. as a freelance designer for approximately 3 years. She obtained a higher diploma in fashion and clothing from The Hong Kong Polytechnic University in July 2002.

Mr. Wu Chentong (伍臣通), aged 39, is a finance manager of our Group. Mr. Wu has over 15 years of experience in financial management and is primarily responsible for corporate financial management. He joined our Group in September 2011. He graduated from Sanming Vocational University* (三明職業大學) in July 1998 with a major in accounting.

JOINT COMPANY SECRETARIES

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

Ms. Lu Yanping (盧燕萍), aged 25, was appointed as one of the joint company secretaries of our company on 16 December 2013. Ms. Lu joined our Group in July 2010. She is mainly responsible for providing assistance to the Chairman of the Company in the discharge of his duties and responsibilities as chairman of the Board, including coordination of board meeting and preparation of board minutes.

Report of the Directors

The Directors are pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2013.

PRINCIPAL PLACE OF BUSINESS

The Company was incorporated in the Cayman Islands. The Group's principal place of business is in the PRC.

PRINCIPAL ACTIVITIES

The principal activities of the Group are wholesaling and retailing of branded children's apparel in the PRC. The principal activities and other particulars of the subsidiaries are set out in note 13 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2013, aggregate sales to the Group's largest and five largest customers accounted for 18.6% (2012: 16.9%) and 49.5% (2012: 46.3%), respectively, of the Group's total turnover for the year.

During the year ended 31 December 2013, aggregate purchases from the Group's largest and five largest suppliers of raw materials and OEM products accounted for 12.6% (2012: 10.4%) and 47.7% (2012: 43.1%), respectively, of the Group's total purchases for the year.

At no time during the year have the Directors, their associates or any Shareholder of the Company (who or which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

FOUR-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the latest four financial years is set out on page 88 of the annual report. This summary does not form part of the audited consolidated financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2013 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 47 to 51 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year ended 31 December 2013 are set out in note 10 to the financial statements.

RESERVES

Details of movements in reserves of the Company and the Group are set out in note 24 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

There was no reserves available for distribution to the Shareholders of the Company as at 31 December 2013.

DIVIDEND

The Directors recommend the payment of a special dividend of HK5 cents per ordinary share in respect of the year ended 31 December 2013, subject to the approval of the Shareholders at the upcoming annual general meeting of the Company to be held on 23 May 2014.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to RMB0.1 million (2012: Nil).

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 23 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules for the period from the Listing Date to the date of this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands where the Company was incorporated.

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

The Company has been listed since 15 January 2014. Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2013.

DIRECTORS

The Directors during the financial year were:

Executive Directors

Mr. Ding Peiji *(Chairman) (appointed on 15 March 2013)*
Mr. Ding Peiyuan *(appointed on 16 December 2013)*
Ms. Ding Lizhen *(appointed on 16 December 2013)*
Mr. Gu Jishi *(appointed on 16 December 2013)*

Independent non-executive Directors

Mr. Leung Wai Yip *(appointed on 16 December 2013)*
Mr. Mei Wenjue *(appointed on 16 December 2013)*
Mr. Zhu Wenxin *(appointed on 16 December 2013)*

Each of the executive Directors of the Company has entered into a service contract with the Company for an initial term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other which notice shall not expire until after the fixed term. Each of the independent non-executive Directors has entered into an appointment letter with the Company for an initial term of three years commencing from the Listing Date. Each of the Directors will be subject to retirement and re-election at annual general meeting in accordance with the Company's articles of association. The details of the remuneration of each of the Directors are revealed on note 6 to the financial statements.

Details of the Directors' biographies have been set out on pages 32 to 34 of the annual report. In accordance with article 84 of the Company's articles of association, Mr. Ding Peiji, Mr. Gu Jishi and Mr. Leung Wai Yip will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Group which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year ended 31 December 2013.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

The Shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited on 15 January 2014. As at the date of this report, the interests or short positions of the Directors and the chief executive in the Company's shares, underlying shares and debentures of the associated corporations of the Company, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code, will be as follows:

Interests and short positions in the shares, underlying shares and debentures and associated corporations:

Long positions in the Company

Name of Director	Nature of interest	Capacity	Number of Shares	Approximate percentage of shareholding(6)
Mr. Ding Peiji ("Mr Ding")(1)	L(4)	Interest in a controlled corporation	319,076,694	38.72%
Ms. Ding Lizhen(2)	L(4)	Interest in a controlled corporation	42,240,000	5.13%
		Beneficial owner	800,000(5)	0.10%
Mr. Ding Peiyuan(3)	L(4)	Interest in a controlled corporation	42,240,000	5.13%
		Beneficial owner	800,000(5)	0.10%
Mr. Gu Jishi	L(4)	Beneficial owner	800,000(5)	0.10%

Note:

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

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

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

(4) The letter "L" denotes long position.

(5) Each of Ms. Ding Lizhen, Mr. Ding Peiyuan and Mr. Gu Jishi, an executive Director, has been granted an option to subscribe for 800,000 Shares under the Pre-IPO Share Option Scheme.

(6) The calculation is based on the total number of 824,000,000 ordinary Shares of the Company in issue as at the date of this report, without taking into account of any Shares to be issued upon exercise of the options granted under the Pre-IPO Share Option Scheme or options which may be granted under the Share Option Scheme.

Saved as disclosed above, as at the date of this report, none of the Directors and the chief executives of the Company and their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

The Shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited on 15 January 2014. As at the date of this report, the persons or corporations who had an interest or short position in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Nature of interest	Capacity	Number of Shares	Approximate percentage of shareholding(9)
Think Wise(1)	L(7)	Beneficial owner	319,076,694	38.72%
Mr. Ding(1)	L(7)	Interest in a controlled corporation	319,076,694	38.72%
Opulent Ample(2)	L(7)	Beneficial owner	42,240,000	5.28%
Mr. Ding Weizhu(2)	L(7)	Interest in a controlled corporation	42,240,000	5.28%
Snowy Wise(3)	L(7)	Beneficial owner	42,240,000	5.13%
Ms. Ding Lizhen(3)	L(7)	Interest in a controlled corporation	42,240,000	5.13%
		Beneficial owner	800,000 (8)	0.10%
Rightful Style(4)	L(7)	Beneficial owner	42,240,000	5.13%
Mr. Ding Peiyuan(4)	L(7)	Interest in a controlled corporation	42,240,000	5.13%
		Beneficial owner	800,000 (8)	0.10%
Splendid First(5)	L(7)	Beneficial owner	41,600,000	5.05%
Ms. Ting Lai Yan(5)	L(7)	Interest in a controlled corporation	41,600,000	5.05%
Chance Talent(6)	L(7)	Beneficial owner	42,523,306	5.16%

Note:

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

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

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

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

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

(6) Chance Talent Management Limited, a company incorporated with limited liability under the laws of the BVI on 4 July 2007, which is wholly owned by CCB International Capital Limited.

(7) The letter "L" denotes long position.

(8) Each of Ms. Ding Lizhen and Mr. Ding Peiyuan, an executive Director, has been granted an option to subscribe for 800,000 Shares under the Pre-IPO Share Option Scheme.

(9) The calculation is based on the total number of 824,000,000 ordinary Shares of the Company in issue as at the date of this report. without taking into account of any Shares to be issued upon exercise of the options granted under the Pre-IPO Share Option Scheme or options which may be granted under the Share Option Scheme.

Save as disclosed above, as at the date of this report, the Directors were not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO.

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

The following transaction constituted non-exempt continuing connected transaction under the Listing Rules. Details of such continuing connected transaction (as defined under the Listing Rules) are set out below in accordance with the requirements of the Listing Rules:

Minghao (Xiamen) Children's Products Co., Ltd. ("Xiamen Minghao") is owned as to 80% by Mr. Ding Peijie (丁培杰), a brother of each of Mr. Ding Peiji, Mr. Ding Peiyuan and Ms. Ding Lizhen, and 20% by Mr. Ding Rongyuan (丁榮源), a brother-in-law of Mr. Ding Peijie.

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

Xiamen Minghao is one of our distributors. Our Group entered into distributorship agreement (the "Xiamen Minghao Distributorship Agreement") with Xiamen Minghao, which constitutes non-exempt continuing connected transactions of our Group under the Listing Rules, and the terms of which are identical with those of the distributorship agreements we enter into with our other independent distributors.

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

The annual caps of the transaction amounts under the Xiamen Minghao Distributorship Agreement are RMB21.0 million, RMB26.0 million and RMB29.0 million, respectively, for each of the three years ended and ending 31 December 2013, 2014 and 2015.

During the year ended 31 December 2013, our sales of children's apparel products to Xiamen Minghao amounted to RMB20.4 million (FY2012: RMB17.1 million), which was below the prescribed annual cap of RMB21.0 million.

Opinion from the independent non-executive Directors and auditor on the non-exempt continuing connected transaction

The Directors (including all independent non-executive Directors) have reviewed the above non-exempt continuing connected transaction and confirmed that this transaction was entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms; and

(3) in accordance with the relevant agreement governing it and on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

KPMG, the auditor of the Company, was engaged to report on the Group's continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Company has received an unqualified letter from KPMG containing their finding and conclusions in respect of the continuing connected transaction disclosed above in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the paragraph headed "Non-Exempt Continuing Connected Transaction" above and in note 29 to the financial statements, no contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

Save as disclosed in the paragraph headed "Non-Exempt Continuing Connected Transaction" above and in note 29 to the financial statements, there had been no contract of significance between the Company or any of its subsidiaries and controlling shareholders (as defined in the Listing Rules) of the Company or any of its subsidiaries during the year.

COMPETING BUSINESS

None of the Directors of the Company had any interest in any competing business with the Company or any of its subsidiaries during the year. Each of Mr. Ding and Think Wise (the controlling shareholders (within the meaning of the Listing Rules) of the Company) has confirmed to the Company that he/it has complied with the non-compete undertaking given by them to the Company on 16 December 2013. The independent non-executive Directors of the Company have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with throughout the period from 16 December 2013 to 31 December 2013.

EQUITY-SETTLED SHARE BASED PAYMENTS

The Company adopted a pre-initial public offering share option scheme (the "Pre-IPO Share Option Scheme") and a share option scheme (the "Share Option Scheme") on 27 December 2013 for the purpose of providing incentives and rewards to eligible participants who contribute to the Group.

Pre-IPO Share Option Scheme

The Company adopted the Pre-IPO Share Option Scheme on 27 December 2013 for the purpose of giving our employees an opportunity to have a personal stake in our Company and help motivate our employees to optimize their performance and efficiency, and also to retain our employees whose contributions are important to the long-term growth and profitability of our Group. Options to subscribe for an aggregate of 7,000,000 Shares were conditionally granted to 21 participants on 27 December 2013 (the "Pre-IPO Share Options"), representing approximately 0.08% of the Company's issued share capital as at the date of this report. The exercise price per Share is HK$1.82, being 80% of the global offering price. No further options could be granted under the Pre-IPO Share Option Scheme on or after the Listing Date. Each Pre-IPO Share Option has an eight-year exercise period and can only be exercised in the following manner:

Period within which option can be exercised	Maximum percentage of entitlement
Any time after the first anniversary of the Listing Date	30% of the Pre-IPO Share Options granted
Any time after the second anniversary of the Listing Date	30% of the Pre-IPO Share Options granted
Any time after the third anniversary of the Listing Date	40% of the Pre-IPO Share Options granted

There was no exercise, lapse or cancellation of Pre-IPO Share Options during the year ended 31 December 2013. A summary of grantees whom have been granted Pre-IPO Share Options is set out below:

Name	Number of shares to be issued upon full exercise of the Pre-IPO Share Options	Percentage of the issued share capital of the Company(1)
Directors		
Mr. Ding Peiyuan	800,000	0.1%
Ms. Ding Lizhen	800,000	0.1%
Mr. Gu Jishi	800,000	0.1%
Others		
In aggregate	4,600,000	0.5%
Total	7,000,000	0.8%

(1) The calculation is based on the total number of 824,000,000 ordinary Shares of the Company in issue as at the date of this report, without taking into account of any Shares to be issued upon exercise of the Pre-IPO Share Options or options to be granted under the Share Option Scheme.

Share Option Scheme

The Company adopted the Share Option Scheme on 27 December 2013 for the purpose of rewarding certain eligible persons for their past contributions and attracting and retaining, or otherwise maintaining on-going relationships with, such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group. Subject to the earlier termination of the Share Option Scheme in accordance with the rules thereof, the Share Option Scheme shall remain in force for a period of ten years commencing on the Listing Date.

Eligible participants of the Scheme include any proposed, full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; any directors or proposed director (including non-executive director and independent non-executive directors) of the Company or any of its subsidiaries; any direct or indirect Shareholder of the Company or any of its subsidiaries; and any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the shares in issue as at the Listing Date, i.e. 80,000,000 shares of the Company. Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

(i) renew this limit at any time to 10% of the shares in issue as at the date of the approval by the Shareholders in general meeting; and/or

(ii) grant options beyond the 10% limit to eligible participants specifically identified by the Board.

Notwithstanding the foregoing, the maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the shares of the Company in issue from time to time.

The maximum number of shares issuable upon the exercise of options granted under the Share Option Scheme and any other share option scheme adopted by the Group (including both exercised or outstanding options) to each grantee within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of options in excess of this 1% limit shall be subject to: (i) the issue of a circular by the Company; and (ii) the approval of the Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time.

Share options granted to a director, chief executive or substantial Shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors of the Company. In addition, any share options granted to a substantial Shareholder or an independent non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to Shareholders' approval in advance in a general meeting.

The exercise period of the share options granted is determinable by the directors, which period may commence from the date of the offer of the share options, and ends on a date which is not later than ten years from the date of grant of the share options subject to the provisions for early termination thereof. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK$1.0 upon acceptance of the grant on or before 28 days after the offer date.

The exercise price of the share options is determinable by the directors, but shall not be less than the highest of (i) the closing price of the Company's shares as quoted on the Stock Exchange's daily quotations sheet for trade in one or more board lots of the shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of the Company's shares as quoted on the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer; and (iii) the nominal value of a share.

As at 31 December 2013, and up to date of this report, no option had been granted under the Share Option Scheme.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in "Equity-settled Share Based Payments" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

RETIREMENT SCHEMES

The Group participates in defined contribution retirement benefit schemes organized by the PRC municipal and provincial government authorities for the Group's eligible employees in the PRC, and operates a Mandatory Provident Fund scheme for the employees in Hong Kong. Particulars of these retirement plans are set out in note 21 to the financial statements.

EVENTS AFTER THE REPORTING PERIOD

(i) Capitalisation Issue

The Company capitalised an amount of HK$6,390,000 from the amount standing to the credit of reserve accounts of the Company and that the said sum was applied in paying up in full 639,000,000 shares of the Company, the said shares were allotted and issued, credited as fully paid to holders of shares appearing on the register of members of the Company at the close of business on 27 December 2013 in proportion to their then respective shareholdings.

(ii) Global Offering

On 15 January 2014, the shares of the Company became listed on the Main Board of the Stock Exchange, pursuant to which 160,000,000 new shares were issued by the Company at the offering price of HK$2.28 per share.

(iii) Full exercise of over-allotment option

Pursuant to full exercise of the over-allotment option granted by the Company in the Global Offering on 17 January 2014, a total of 24,000,000 new shares were allotted and issued by the Company on 22 January 2014 at the offering price of HK$2.28 per share.

(iv) The amount due to a related party of approximately RMB144.9 million as at 31 December 2013 was fully waived in January 2014.

AUDITOR

The consolidated financial statements for the year ended 31 December 2013 have been audited by KPMG, who shall retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditor of the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board

Ding Peiji
Chairman

Hong Kong, 25 March 2014

Independent auditor's report to the shareholders of Miko International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Miko International Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 47 to 87, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTOR'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

25 March 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013
(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Turnover	2	**661,416**	519,987
Cost of sales		**(401,330)**	(324,173)
Gross profit		**260,086**	195,814
Other revenue	3	**2,051**	218
Other net (loss)/income	3	**(1,368)**	1
Selling and distribution expenses		**(47,002)**	(49,542)
Administrative and other operating expenses		**(32,260)**	(13,233)
Profit from operations		**181,507**	133,258
Finance costs	4(a)	**(4,326)**	(2,477)
Profit before taxation	4	**177,181**	130,781
Income tax	5(a)	**(47,568)**	(15,343)
Profit for the year		**129,613**	115,438
Other comprehensive income for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of operations outside mainland China		**4,030**	(7)
Total comprehensive income for the year		**133,643**	115,431
Earnings per share (RMB cents)			
— basic	9(a)	**20**	18
— diluted	9(b)	**20**	18

The notes on pages 52 to 87 form part of these financial statements. Details of dividends payable to shareholders of the Company attributable to the profit for the year are set out in note 25.

Consolidated Statement of Financial Position

As at 31 December 2013
(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Non-current assets			
Property, plant and equipment	10	**39,021**	40,776
Intangible assets	11	**535**	54
Lease prepayments	12	**3,029**	3,117
Deposits for purchase of a property	10(d)	**51,750**	—
Deferred tax assets	14(b)	**2,105**	2,968
		96,440	46,915
Current assets			
Inventories	15	**38,761**	27,873
Trade and other receivables	16	**257,458**	283,301
Pledged bank deposits	17	**—**	3,880
Cash and cash equivalents	18(a)	**260,079**	8,894
		556,298	323,948
Current liabilities			
Bank loans	19	**76,890**	38,800
Trade and other payables	20(a)	**188,573**	89,483
Current tax payable	14(a)	**15,953**	6,336
		281,416	134,619
Net current assets		**274,882**	189,329
Total assets less current liabilities		**371,322**	236,244
Net assets		**371,322**	236,244
Equity			
Share capital	23	**8**	520
Reserves	24	**371,314**	235,724
Total equity		**371,322**	236,244

Approved and authorised for issue by the board of directors on 25 March 2014.

Ding Peiji
Director

Ding Peiyuan
Director

The notes on pages 52 to 87 form part of these financial statements.

Statement of Financial Position

As at 31 December 2013
(Expressed in Renminbi)

	Note	2013 RMB'000
Non-current asset		
Investment in a subsidiary	13	—
Current assets		
Other receivables	16	**2,680**
Cash and cash equivalents	18(a)	**33**
		2,713
Current liabilities		
Amount due to a subsidiary	20(b)	**5,591**
Other payables		**3,505**
		9,096
Net current liabilities		**(6,383)**
Total assets less current liabilities		**(6,383)**
Net assets		**(6,383)**
Equity		
Share capital	23	**8**
Reserves	24	**(6,391)**
Total equity		**(6,383)**

Approved and authorised for issue by the board of directors on 25 March 2014.

Ding Peiji
Director

Ding Peiyuan
Director

The notes on pages 52 to 87 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013
(Expressed in Renminbi)

	Share capital RMB'000 (Note 23)	Statutory reserve RMB'000 (Note 24(a))	Exchange reserve RMB'000 (Note 24(b))	Share-based payment reserve RMB'000 (Note 24(c))	Retained profits RMB'000	Total equity RMB'000
At 1 January 2012	520	11,480	5,515	—	103,298	120,813
Changes in equity for 2012:						
Profit for the year	—	—	—	—	115,438	115,438
Other comprehensive income	—	—	(7)	—	—	(7)
Total comprehensive income	—	—	(7)	—	115,438	115,431
Appropriation to statutory reserve	—	11,545	—	—	(11,545)	—
At 31 December 2012 and 1 January 2013	**520**	**23,025**	**5,508**	**—**	**207,191**	**236,244**
Changes in equity for 2013:						
Profit for the year	**—**	**—**	**—**	**—**	**129,613**	**129,613**
Other comprehensive income	**—**	**—**	**4,030**	**—**	**—**	**4,030**
Total comprehensive income	**—**	**—**	**4,030**	**—**	**129,613**	**133,643**
Share issued for reorganisation	**8**	**—**	**—**	**—**	**—**	**8**
Reduction in capital upon reorganisation	**(520)**	**—**	**—**	**—**	**—**	**(520)**
Equity-settled share-based payments	**—**	**—**	**—**	**1,947**	**—**	**1,947**
Appropriation to statutory reserve	**—**	**14,027**	**—**	**—**	**(14,027)**	**—**
At 31 December 2013	**8**	**37,052**	**9,538**	**1,947**	**322,777**	**371,322**

The notes on pages 52 to 87 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2013
(Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Operating activities			
Cash generated from operations	18(b)	**216,278**	30,439
Income tax paid		**(37,088)**	(15,302)
Net cash generated from operating activities		**179,190**	15,137
Investing activities			
Payment for the purchase of property, plant and equipment		**(53,535)**	(67)
Interest received		**834**	212
Net cash (used in)/generated from investing activities		**(52,701)**	145
Financing activities			
Proceeds from bank loans		**76,890**	44,800
Repayment of bank loans		**(38,800)**	(28,400)
Payment of listing related expenses		**(1,058)**	—
Net advance from/(repayment to) the parent company and related parties		**91,997**	(24,315)
Interest paid		**(4,326)**	(2,477)
Net cash generated from/(used in) financing activities		**124,703**	(10,392)
Net increase in cash and cash equivalents		**251,192**	4,890
Cash and cash equivalents at 1 January		**8,894**	4,004
Effect of foreign exchange rate changes		**(7)**	—
Cash and cash equivalents at 31 December	18(a)	**260,079**	8,894

The notes on pages 52 to 87 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These 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 disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the consolidated financial statements

The Company was incorporated in the Cayman Islands on 15 March 2013 as part of the group reorganisation undertaken by the Group (hereafter referred to as the "Reorganisation").

The issue of shares of the Company in exchange for the controlling interest in Red Kids Group (Hong Kong) Limited ("Red Kids Hong Kong") and the connected share swap between the Company, Obvious Cheer Investment Development Limited ("Obvious Cheer") and Red Kids Hong Kong resulted in the Company becoming the holding company of Red Kids Hong Kong on 16 April 2013, which has been accounted for in accordance with the principle similar to a reverse acquisition as set out in IFRS 3, *Business Combinations*. The consolidated financial statements have been prepared as a continuation of Red Kids Hong Kong and the consolidated assets and liabilities of Red Kids Hong Kong are recognised and measured at their historical carrying values prior to 16 April 2013.

The consolidated financial statements for the year ended 31 December 2013 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of these consolidated financial statements is the historical cost basis.

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

The preparation of these consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 30.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) New accounting standards

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following new standards and amendments to IFRSs are relevant to the Group's current financial statements.

- Amendments to IAS 1, *Presentation of financial statements — Presentation of items of other comprehensive income*
- IFRS 10, *Consolidated financial statements*
- IFRS 13, *Fair value measurement*
- Amendments to IFRS 7, *Financial instruments: Disclosures — offsetting financial assets and financial liabilities*

These new standards and amendments to IFRSs have no material impact on the Group's consolidated financial statements as they were consistent with policies already adopted by the Group. The Group has not adopted any new standard or amendment to IFRSs that is not yet effective for the current accounting period.

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing these consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(i)(ii)).

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(i)(ii)).

Construction in progress represents property, plant and equipment under construction and equipment pending for installation, and is stated at cost less impairment losses (see note 1(i)(ii)). Cost comprises direct cost of construction. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are complete.

No depreciation is provided in respect of construction in progress.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment (Continued)

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

—	Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 20 years after the date of completion.	
—	Machinery	10 years
—	Motor vehicles	5 years
—	Furniture, fixtures and equipment	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(f) Lease prepayments

Lease prepayments represent cost of acquiring land use rights paid to the PRC's governmental authorities. Land use rights are carried at cost less accumulated amortisation and impairment losses (see note 1(i)(ii)). Amortisation is charged to profit or loss on a straight-line basis over the respective periods of the rights.

(g) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(i)(ii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. Computer software is amortised from the date they are available for use for 10 years.

Both the useful life and method of amortisation are reviewed annually.

(h) Operating lease charges

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior periods.

Impairment losses recognised in respect of trade and bills receivables are included within trade and other receivables, whose recovery is considered doubtful and not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and bills receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment (including deposits for purchase of a property);

— lease prepayments;

— intangible assets; and

— investment in a subsidiary.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

If any such indication exists, the asset's recovered amount is estimated.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use, (if determinable).

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less impairment losses for bad and doubtful debts (see note 1(i)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(i)(i)).

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(o) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payment

The fair value of share options granted to eligible persons is recognised as an expense with a corresponding increase in the share-based payment reserve in equity. The fair value is measured at the grant date using the binomial model, taking into account the terms and conditions upon which the options are granted.

Where the eligible persons have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest. During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review with a corresponding adjustment to the share-based payment reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share-based payment reserve). The equity amount is recognised in the share-based payment reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous year.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Income tax (Continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered and when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Revenue recognition (Continued)

(iii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same period in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful lives of the asset by way of reduced depreciation expense.

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations with functional currency other than RMB are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in the exchange reserve in equity.

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

(u) Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labor, and an appropriate proportion of overheads and borrowing costs, where applicable. Capitalised development costs, if any, are stated at cost less accumulated amortisation and impairment losses. Other development expenditure is recognised as an expense in the period in which it is incurred.

(v) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(w) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Related parties (Continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial statements provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Group operates in a single business, manufacture and sales of children's apparel products in the PRC. Accordingly, no segmental analysis is presented.

2 TURNOVER

The principal activities of the Group are design, manufacture and sales of children's apparel products. Turnover represents the sales value of goods sold less returns, discounts and value added taxes.

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

	2013 RMB'000	2012 RMB'000
PRC	**660,781**	517,246
Overseas	**635**	2,741
	661,416	519,987

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

	2013 RMB'000	2012 RMB'000
Customer A	**122,950**	87,827
Customer B	**70,545**	N/A

Revenue from customer B contributed less than 10% of the turnover of the Group for the year ended 31 December 2012.

3 OTHER REVENUE AND OTHER NET (LOSS)/INCOME

	2013 RMB'000	2012 RMB'000
Other revenue		
Interest income	**834**	212
Government grants	**615**	6
Others	**602**	—
	2,051	218
Other net (loss)/income		
Net foreign exchange (loss)/gain	**(1,368)**	1

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		2013 RMB'000	2012 RMB'000
(a)	**Finance costs:**		
	Interest on bank loans	**4,326**	2,477
(b)	**Staff costs:**		
	Contributions to defined contribution retirement plans	**304**	254
	Salaries, wages and other benefits	**30,605**	34,644
		30,909	34,898
(c)	**Other items:**		
	Amortisation		
	— lease prepayments	**88**	88
	— intangible assets	**14**	14
	Depreciation	**3,044**	3,335
	Auditors' remuneration	**1,228**	15
	Operating lease charges in respect of properties	**995**	75
	Research and development	**5,828**	2,787
	Cost of inventories #	**401,330**	324,173

Cost of inventories for the year ended 31 December 2013 includes RMB18,977,000 (2012: RMB24,915,000) relating to staff costs and depreciation, which amount is included in the respective total amounts disclosed separately in notes 4(b) and (c) above for each of these types of expenses.

5 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:

	2013 **RMB'000**	2012 RMB'000
Current tax		
PRC corporate income tax	**46,705**	16,699
Deferred tax		
Origination and reversal of temporary differences	**863**	(1,356)
	47,568	15,343

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

	2013 **RMB'000**	2012 RMB'000
Profit before taxation	**177,181**	130,781
Notional tax on profit before taxation, calculated at the standard tax rates applicable to the respective tax jurisdictions	**46,445**	32,696
Tax effect of PRC preferential tax treatment (iii)	**—**	(16,349)
Tax effect of non-deductible expenses	**1,123**	29
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**—**	(1,033)
Actual tax expense	**47,568**	15,343

(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 2012 and 2013.

(iii) Red Kids (China) Co., Ltd. (紅孩兒(中國)有限公司) ("Red Kids China"), being a production-type foreign investment enterprise, was entitled to a 50% reduction in the income tax rate in 2012.

(iv) The applicable income tax rate for all of the Group's subsidiaries in mainland China is 25% in 2013.

6 DIRECTORS' REMUNERATION

Details of directors' remuneration are set out below:

Year ended 31 December 2013

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to defined contributions retirement plans RMB'000	Discretionary Bonuses RMB'000	Total RMB'000
Executive directors					
Mr. Ding Peiji	**4**	**597**	**10**	**59**	**670**
Mr. Ding Peiyuan	**4**	**514**	**3**	**51**	**572**
Ms. Ding Lizhen	**4**	**516**	**7**	**51**	**578**
Mr. Gu Jishi	**4**	**676**	**3**	**19**	**702**
Sub-total	**16**	**2,303**	**23**	**180**	**2,522**
Independent non-executive directors#					
Mr. Leung Wai Yip	**—**	**—**	**—**	**—**	**—**
Mr. Mei Wenjue	**—**	**—**	**—**	**—**	**—**
Mr. Zhu Wenxin	**—**	**—**	**—**	**—**	**—**
Sub-total	**—**	**—**	**—**	**—**	**—**
Total	**16**	**2,303**	**23**	**180**	**2,522**

The independent non-executive directors were appointed on 16 December 2013.

Year ended 31 December 2012

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to defined contributions retirement plans RMB'000	Discretionary Bonuses RMB'000	Total RMB'000
Executive directors					
Mr. Ding Peiji	—	339	8	30	377
Mr. Ding Peiyuan	—	294	2	26	322
Ms. Ding Lizhen	—	295	7	26	328
Mr. Gu Jishi	—	604	2	11	617
Total	—	1,532	19	93	1,644

During the year, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 7 as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

7 INDIVIDUAL WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2012: four) are directors whose remuneration is disclosed in note 6 above. The aggregate of the emoluments in respect of the remaining individual is as follows:

	2013 RMB'000	2012 RMB'000
Salaries and other emoluments	**371**	197
Discretionary bonus	**—**	16
Contributions to defined contribution retirement plans	**—**	2
	371	215

The emoluments of the above individual with the highest emoluments fall within the following band:

	2013 Number of individual	2012 Number of individual
HK$1 to HK$1,000,000	**1**	1

8 PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to shareholders of the Company includes a loss of RMB8,393,000, which has been dealt with in the financial statements of the Company.

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the year of RMB129,613,000 (2012: RMB115,438,000) and the 640,000,000 (2012: 640,000,000) shares in issue and issuable, comprising 1,000,000 ordinary shares as at 31 December 2013 and 639,000,000 ordinary shares issued pursuant to the capitalisation issue as detailed in the prospectus dated 31 December 2013 issued by the Company as if the shares were outstanding throughout both 2012 and 2013 (also see note 23).

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the year of RMB129,613,000 (2012: RMB115,438,000) and the weighted average number of ordinary shares of 640,019,000 shares (2012: 640,000,000), which is calculated after taking into account of the effect of deemed issue of shares under the Company's share option scheme (see note 22). There were no dilutive potential ordinary shares issued in the year ended 31 December 2012.

10 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipments RMB'000	Sub-total RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2012	50,459	7,624	4,659	3,278	66,020	—	66,020
Additions	—	—	34	33	67	—	67
At 31 December 2012 and 1 January 2013	50,459	7,624	4,693	3,311	66,087	—	66,087
Additions	—	7	—	308	315	974	1,289
At 31 December 2013	50,459	7,631	4,693	3,619	66,402	974	67,376
Accumulated depreciation:							
At 1 January 2012	10,791	6,125	3,124	1,936	21,976	—	21,976
Charge for the year	2,271	329	437	298	3,335	—	3,335
At 31 December 2012 and 1 January 2013	13,062	6,454	3,561	2,234	25,311	—	25,311
Charge for the year	2,271	109	365	299	3,044	—	3,044
At 31 December 2013	15,333	6,563	3,926	2,533	28,355	—	28,355
Net book value:							
At 31 December 2013	35,126	1,068	767	1,086	38,047	974	39,021
At 31 December 2012	37,397	1,170	1,132	1,077	40,776	—	40,776

(a) All property, plant and equipment owned by the Group are located in the PRC.

(b) Buildings with net book value of RMB9,598,000 as at 31 December 2013 were mortgaged to banks for certain banking facilities granted to the Red Kids China.

(c) The ownership certificates for buildings with net book value of RMB23,459,000 (2012: RMB24,750,000) have not been obtained.

(d) The Group made prepayments for the acquisition of a property planned for own use (currently under development) in the PRC.

11 INTANGIBLE ASSETS

	Computer Software RMB'000
Cost:	
At 1 January, 31 December 2012 and 1 January 2013	144
Additions	495
At 31 December 2013	639
Accumulated amortisation:	
At 1 January 2012	76
Charge for the year	14
At 31 December 2012 and 1 January 2013	90
Charge for the year	14
At 31 December 2013	104
Net book value:	
At 31 December 2013	535
At 31 December 2012	54

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

12 LEASE PREPAYMENTS

	RMB'000
Cost:	
At 1 January 2012, 31 December 2012 and 2013	4,206
Accumulated amortisation:	
At 1 January 2012	1,001
Charge for the year	88
At 31 December 2012 and 1 January 2013	1,089
Charge for the year	88
At 31 December 2013	1,177
Net book value:	
At 31 December 2013	3,029
At 31 December 2012	3,117

Lease prepayments with net book value of RMB1,898,000 (2012: nil) as at 31 December 2013 were mortgaged to banks for certain banking facilities granted to Red Kids China.

13 INVESTMENT IN A SUBSIDIARY

The Company

	2013 RMB'000
Unlisted shares, at cost	—

Particulars of the subsidiaries are set out below:

Name of company	Place of incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest attributable to the Company		Principal activity
			Direct	Indirect	
Obvious Cheer	BVI	1 share of USD1 each	100%	—	Investment holding
Red Kids Hong Kong	Hong Kong	100,000 shares of HK$5 each	—	100%	Investment holding
Red Kids (China) Co., Ltd.* 紅孩兒（中國）有限公司	PRC	HK$160,000,000	—	100%	Design, manufacture and sales of children apparel products
Miko (Shanghai) Apparels Co., Ltd.* 米格（上海）服飾有限公司	PRC	HK$20,000,000	—	100%	Trading and retailing of children apparel products

* These entities are wholly foreign owned enterprises established in the PRC. The English translation of the companies' names is for reference only. The official names of these companies are in Chinese.

14 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2013 RMB'000	2012 RMB'000
Provision for PRC corporate income tax	**15,953**	6,336

14 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(b) Deferred tax assets recognised:

The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Accrued expenses RMB'000
At 1 January 2012	1,612
Credited to consolidated statement of profit or loss *(note 5(a))*	1,356
At 31 December 2012 and 1 January 2013	2,968
Charged to consolidated statement of profit or loss *(note 5(a))*	(863)
At 31 December 2013	2,105

(c) Deferred tax liabilities not recognised

According to the PRC Corporate Income Tax Law and its implementation rules, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to withholding tax at a rate of 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. In addition, under the Sino-Hong Kong Double Tax Arrangement and its relevant regulations, a qualified Hong Kong tax resident will be liable for withholding tax at the rate of 5% for dividend income derived from the PRC if the Hong Kong tax resident is the "beneficial owner" and holds 25% or more of the equity interests of the PRC company.

Deferred tax liabilities in respect of the PRC dividend withholding tax relating to the undistributed profits of the Company's subsidiaries of RMB333,468,000 (2012: RMB207,222,000) were not recognised as the Company controls the dividend policy of these subsidiaries and the directors have determined that these profits are not likely to be distributed in the foreseeable future.

15 INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	2013 RMB'000	2012 RMB'000
Raw materials	**4,413**	4,476
Work in progress	**4,757**	9,796
Finished goods	**29,591**	13,601
	38,761	27,873

16 TRADE AND OTHER RECEIVABLES

	The Group		The Company
	2013	2012	**2013**
	RMB'000	RMB'000	**RMB'000**
Trade receivables			
— third parties	**230,931**	196,367	**—**
— related parties	**4,958**	5,415	**—**
Trade receivables	**235,889**	201,782	**—**
Prepayments to suppliers	**18,255**	42,033	**—**
Amount due from a related party	**—**	1,000	**—**
Amounts due from the ultimate controlling party	**—**	36,429	**—**
Other deposits, prepayments and receivables	**3,314**	2,057	**2,680**
	257,458	283,301	**2,680**

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

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

	2013	2012
	RMB'000	RMB'000
Within 3 months	**235,729**	200,083
After 3 months but within 6 months	**160**	1,698
After 6 months but within 1 year	**—**	1
	235,889	201,782

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

Impairment losses in respect of trade receivables are recorded using allowance account unless the Group is satisfied that the recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 1(i)(i)). For the years ended 31 December 2013 and 2012, the Group did not record any impairment losses in respect of trade receivables.

Trade receivables from related parties are subject to normal commercial terms. Other amounts due from related parties and the ultimate controlling party were settled during 2013.

17 PLEDGED BANK DEPOSITS

Certain bank deposits have been pledged as security for bills payable (see note 20(a)).

18 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	The Group 2013 RMB'000	2012 RMB'000	The Company 2013 RMB'000
Cash at bank and on hand	**260,079**	8,894	**33**

At 31 December 2013, cash and cash equivalents placed with banks in mainland China amounted to RMB259,541,000 (2012: RMB8,564,000). Remittance of funds out of mainland China is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	2013 RMB'000	2012 RMB'000
Profit before taxation		**177,181**	130,781
Adjustments for:			
Depreciation	4(c)	**3,044**	3,335
Amortisation of intangible assets	4(c)	**14**	14
Amortisation of lease prepayments	4(c)	**88**	88
Equity-settled share-based payments		**1,947**	—
Finance costs	4(a)	**4,326**	2,477
Interest income	3	**(834)**	(212)
Changes in working capital:			
(Increase)/decrease in inventories		**(10,888)**	53,936
Decrease/(increase) in trade and other receivables		**28,514**	(139,672)
Increase/(decrease) in trade and other payables		**9,006**	(19,278)
Decrease/(increase) in pledged bank deposits		**3,880**	(1,030)
Cash generated from operations		**216,278**	30,439

19 BANK LOANS

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

	2013 RMB'000	2012 RMB'000
Bank loans		
— secured	**28,000**	—
— unsecured	**48,890**	38,800
	76,890	38,800

20 TRADE AND OTHER PAYABLES

(a) The Group

	2013 **RMB'000**	2012 RMB'000
Bills payable	**—**	6,146
Trade payables	**16,036**	4,953
Trade and bills payables	**16,036**	11,099
Receipts in advance	**104**	577
Amount due to a related party	**144,855**	56,383
Other payables and accruals	**27,578**	21,424
	188,573	89,483

Bills payable as at 31 December 2012 were secured by the Group's pledged bank deposits (see note 17).

All of the trade and other payables are expected to be settled within one year.

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

	2013 **RMB'000**	2012 RMB'000
Within 3 months	**16,036**	11,099

(b) The Company

The balance as at 31 December 2013 represented the amount due to a subsidiary. The amount is unsecured, non-interest bearing and have no fixed terms of repayment.

21 EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

The PRC subsidiaries of the Group participate in defined contribution retirement benefit schemes (the "Schemes") organised by the PRC municipal and provincial government authorities whereby the PRC subsidiaries are required to make contributions at the rate of 12% to 22% of the eligible employees' salaries to the Schemes. The Group has accrued for the required contributions which are remitted to the respective local government authorities when the contributions become due. The local government authorities are responsible for the pension obligations payable to the retired employees covered under the Schemes.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000 (HK$20,000 prior to June 2012). Contributions to the plan vest immediately.

The Group does not have any material obligation for the payment of retirement benefits except for those schemes described above.

22 SHARE-BASED PAYMENTS — SHARE OPTIONS GRANTED UNDER THE PRE-IPO OPTION SCHEME

Pursuant to the shareholders' resolutions passed on 27 December 2013, the Company adopted a pre-IPO share option scheme (the "Pre-IPO Option Scheme") whereby three directors and eighteen employees of the Group (the "Grantees") were given the rights to subscribe for the shares of the Company. The subscription price per share pursuant to the Pre-IPO Option Scheme is equal to 80% of the final offer price of the IPO.

The Pre-IPO Option Scheme was offered to and accepted by the Grantees on 27 December 2013, which is determined to be the service commencement date, and the shareholders' approval on the Pre-IPO Option Scheme became legally enforceable on 15 January 2014, which is the date of listing of the Company's share on the Stock Exchange ("Listing Date") and also the grant date of the pre-IPO options.

The total number of shares which may be issued upon the exercise of all options granted under the Pre-IPO Option Scheme is 7,000,000 shares. No further options would be granted under the Pre-IPO Option Scheme on or after the Listing Date.

Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

(i) The terms and conditions of the grants are as follows:

Date of grant		Number of options granted	Vesting conditions	Contractual life of options
Options granted to directors:				
15 January 2014	Batch 1	720,000	1 year after the Listing Date	8 years
15 January 2014	Batch 2	720,000	2 years after the Listing Date	8 years
15 January 2014	Batch 3	960,000	3 years after the Listing Date	8 years
Options granted to employees:				
15 January 2014	Batch 1	1,380,000	1 year after the Listing Date	8 years
15 January 2014	Batch 2	1,380,000	2 years after the Listing Date	8 years
15 January 2014	Batch 3	1,840,000	3 years after the Listing Date	8 years
		7,000,000		

(Expressed in Renminbi unless otherwise indicated)

22 SHARE-BASED PAYMENTS — SHARE OPTIONS GRANTED UNDER THE PRE-IPO OPTION SCHEME (Continued)

(ii) Fair value of share options and assumptions

The fair value of services rendered by the directors, and employees in return for the share options granted is measured by reference to the fair value of the share options granted. Set out below are the estimate of such fair value and the related assumptions based on the binomial model:

	Batch 1	Batch 2	Batch 3
Fair value at measurement date (HK$)	1.0610	1.1359	1.1959
Share price (HK$)	2.81	2.81	2.81
Exercise price (HK$)	1.824	1.824	1.824
Expected volatility	43.488%	43.488%	43.488%
Option life	8	8	8
Expected dividends	2.50%	2.50%	2.50%
Risk-free rate	1.87%	1.87%	1.87%

The expected volatility is based on the historic volatility (calculated by taking the average of the historical volatilities from comparable companies). Expected dividends are based on management's assumption. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under service condition. These conditions have not been taken account in the fair value measurements at the grant dates. There were no market conditions associated with the grants of the share options.

23 SHARE CAPITAL

Movements in the Company's authorised and issued share capital are as follows:

	Par value HK$	Number of shares	Nominal value of ordinary shares HK$
Authorised			
At 15 March 2013	0.01	38,000,000	380,000
Increase in share capital	0.01	9,962,000,000	99,620,000
At 31 December 2013	0.01	10,000,000,000	100,000,000
Issued and fully paid:			
At 15 March 2013	0.01	100	1
Issue of shares upon Reorganisation	0.01	999,900	9,999
At 31 December 2013	0.01	1,000,000	10,000
Capitalisation issue	0.01	639,000,000	6,390,000
Prior to issue of shares on initial public offering	0.01	640,000,000	6,400,000

23 SHARE CAPITAL (Continued)

On 15 March 2013, the Company was incorporated with authorised share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each.

On 15 March 2013, the Company (i) allotted and issued one share to the initial subscriber, Codan Trust Company (Cayman) Limited at par value which was subsequently transferred to Think Wise Holdings Investment Limited ("Think Wise") on the same day; (ii) allotted and issued 99 Shares at par value to Think Wise.

On 16 April 2013, the Company allotted and issued 9,050 shares to Think Wise at par value, in consideration of Think Wise's transfer of all the issued share capital in Red Kids Hong Kong to Obvious Cheers.

On 17 April 2013, the Company allotted and issued 350 shares, 350 shares and 150 shares to Sun Hung Kai Structured Finance Limited ("SHKSF"), Vantage Assets Investments Limited ("Vantage Assets") and Benhui Capital Ltd. ("Benhui"), respectively, in consideration of Mr. Ding Peiji's acquisition of 8.5% interest in the issued share capital of Think Wise held by SHKSF, Vantage Assets and Benhui in aggregate.

On 17 June 2013, the Company allotted and issued 990,000 shares to its existing shareholders at par value.

On 27 December 2013, the shareholders of the Company resolved to increase the authorised share capital of the Company from HK$380,000 divided into 38,000,000 shares of HK$0.01 each to HK$100,000,000 divided into 10,000,000,000 shares of HK$0.01 each.

On 15 January 2014, 639,000,000 ordinary shares of HK$0.01 each were issued at par value to the shareholders of the Company by way of capitalisation of HK$6,390,000 (equivalent to RMB5,027,000) from the Company's share premium account. Consequently, the total number of shares outstanding after the capitalisation was 640,000,000. The calculation of earnings per share (both basic and diluted) is adjusted retrospectively based on the new number of shares after the above capitalisation issue (see note 9).

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

24 RESERVES

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of reserves between the date of incorporation and the end of the year are set out below:

	The Company			
	Exchange reserve RMB'000	Share-based payment reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 15 March 2013 (date of incorporation)	—	—	—	—
Loss for the year	—	—	(8,393)	(8,393)
Other comprehensive income	55	—	—	55
Total comprehensive income for the year	55	—	(8,393)	(8,338)
Equity-settled share-based payments	—	1,947	—	1,947
At 31 December 2013	55	1,947	(8,393)	(6,391)

(a) Statutory reserve

As stipulated by regulations in the PRC, the Company's subsidiaries established and operated in mainland China are required to appropriate 10% of their after-tax-profit (after offsetting prior year losses) as determined in accordance with the PRC accounting rules and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of profits to parent companies.

The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

(b) Exchange reserve

Exchange reserve comprises all foreign exchange differences arising from the translation of financial statements of operations outside mainland China which are dealt with in accordance with the accounting policies as set out in note 1(s).

(c) Share-based payment reserve

Share-based payment reserve represents the fair value of services rendered by eligible persons to whom the Company has granted share options, and the fair value of services provided by parties other than employees to the Group in connection with the listing of the Company and the services were settled by equity instrument of the Company. The relevant services are recognised in accordance with IFRS 2, *Share-based payment*.

(d) Distributable reserve

There was no reserve available for distribution to the shareholders of the Company at 31 December 2013.

24 RESERVES (Continued)

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for its shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure with reference to its debt position. The Group's strategy is to maintain the equity and debt in a balanced position and ensure there are adequate working capital to service its debt obligations. The Group's debt to capital ratio, being the Group's interest-bearing loans and borrowings over its total equity, at 31 December 2013 was 21% (2012: 16%).

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

25 DIVIDENDS

After the end of the reporting period, the directors proposed a special dividend in respect of the current year of HK$41,200,000 (equivalent to approximately RMB32,622,000), representing HK5 cents per ordinary share (2012: nil).

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

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and deposits with banks. Management has a credit policy in place and the exposures to the credit risks are monitored on an ongoing basis.

(i) Trade and other receivables

Credit evaluations are performed on customers requiring credit terms. These evaluations focus on the customer's history of making payments and current abilities to pay and take into account information specific to the customer as well as to the economic environment. Normally, the Group does not obtain collateral from customers. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 16.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. 22% of the total trade receivables as at 31 December 2013 (2012: 21%) were due from the Group's largest customer, and 52% (2012: 52%) of the total trade receivables were due from the Group's five largest customers respectively.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(a) Credit risk (Continued)

(i) Trade and other receivables (Continued)

The maximum exposure to credit risk of the Group's financial assets is represented by the carrying amount of each financial asset in the consolidated statement of financial position. Except for the financial guarantees given by the Group as set out in note 28, the Group does not provide any other guarantees which would expose the Group to credit risk.

(ii) Deposits with banks

The Group mitigates its exposure to credit risk by placing deposits with financial institutions with established credit rating. Given the high credit ratings of the banks, management does not expect any counterparty to fail to meet its obligations.

(b) Liquidity risk

The board of directors of the Company is responsible for cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands. The Group's policy is to regularly monitor liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer terms.

All non-interest bearing financial liabilities of the Group are carried at amount not materially different from their contractual undiscounted cash flow as all the financial liabilities are with maturities within one year or repayable on demand at the end of respective reporting period.

The following tables show the remaining scheduled maturities at the end of respective reporting period of the Group's bank loans if the bank loans are to be repaid over the agreed repayment schedules, which are based on scheduled undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of reporting period):

	The Group	
	Contractual undiscounted cash flows within 1 year or on demand	**Carrying amount on consolidated statement of financial position**
	RMB'000	RMB'000
Bank loans		
At 31 December 2013	78,988	76,890
At 31 December 2012	40,063	38,800

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank loans. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profiles as monitored by management are set out below.

The following table details the interest rate profile of the Group's borrowings at the end of each reporting period:

	2013		2012	
	Effective interest rate	**Amount RMB**	Effective interest rate	Amount RMB
Fixed rate borrowings:				
Bank loans	**6.677%**	**76,890**	7.325%	38,800

Fair value risk arising from these bank loans is considered insignificant given these loans have short maturities.

(d) Currency risk

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

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2013 and 2012.

27 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 December 2013 not provided for in the consolidated financial statements were as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Contracted for	**67,276**	—

(b) Operating lease commitments

At 31 December 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Within 1 year	**771**	741
After 1 year but within 5 years	**741**	1,482
	1,512	2,223

The Group leases properties under operating leases. The leases typically run for an initial period for one to three years, at the end of which period all terms are renegotiated.

In addition to the minimum rental payments disclosed above, the Group has a commitment to pay rent with reference to turnover for a retail store. Contingent rentals are not included in the above commitments as it is not possible to estimate the amounts which may be payable.

28 CONTINGENT LIABILITIES

The guarantees provided by Red Kids China in respect of certain bank loans made to third parties and related parties as at 31 December 2012 were all released during the year.

29 MATERIAL RELATED PARTY TRANSACTIONS

The directors are of the view that the following are related parties of the Group:

Name of party	Relationship
Mr. Ding Peiji	Ultimate controlling party
Mr. Ding Peiyuan	Director and brother of Mr. Ding Peiji
Ms. Ding Lizhen	Director and sister of Mr. Ding Peiji
Mr. Ding Peijie	Brother of Mr. Ding Peiji
Red Kids (Fujian) Children Articles Co., Ltd.* ("Red Kids Fujian") (紅孩兒(福建)兒童用品有限公司)	Indirectly 100% owned by Mr. Ding Peiji
Fujian Hopeland Import and Export Trading Co., Ltd.* ("Fujian Hopeland") (福建宏潤進出口貿易有限公司)	60% and 40% owned by Mr. Ding Peiyuan and his father respectively
Shanghai Red Kids E-commerce Co., Ltd. * ("Red Kids E-commerce") (上海紅孩兒电子商務有限公司)	60% and 40% owned by Mr. Ding Peiyuan and his spouse respectively; (ceased to be a related party since 25 July 2012 as their interests were sold to third parties)
Minghao (Xiamen) Children Products Co., Ltd.* ("Minghao Xiamen") (銘濠(廈門)兒童用品有限公司)	80% owned by Mr. Ding Peijie, brother of Mr. Ding Peiji
Think Wise (Shanghai) Apparels Co., Ltd.* ("Think Wise Shanghai") (華智(上海)服飾有限公司)	Indirectly 100% owned by Mr. Ding Peiji
Think Wise	100% owned by Mr. Ding Peiji

* The English translation of the companies' names is for reference only. The official names of these companies are in Chinese.

29 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties

In addition to the related party transactions disclosed elsewhere in the financial statements, the Group entered into the following material related party transactions during 2013 and 2012.

	2013 RMB'000	2012 RMB'000
Sales of products to		
— Red Kids E-commerce (prior to 25 July 2012)	**—**	35,340
— Minghao Xiamen (note 29(d))	**20,355**	17,061
— Think Wise Shanghai	**—**	5,198
	20,355	57,599

	2013 RMB'000	2012 RMB'000
Advances/repayments from related parties		
— Fujian Hopeland	**1,000**	25,163
— Think Wise	**91,997**	2
— Mr. Ding Peiji	**36,429**	22,417
	129,426	47,582
Advances/repayments to related parties		
— Fujian Hopeland	**—**	3,500
— Think Wise	**—**	317
— Mr. Ding Peiji	**—**	87,889
— Mr. Ding Peiyuan	**—**	24,000
— Ms. Ding Lizhen	**—**	99
	—	115,805

As at 31 December 2012, Red Kids Fujian's certain banking facilities were secured by mortgages over the Group's buildings and lease prepayments with an aggregate carrying amount of RMB12,400,000. The mortgages were released during 2013.

29 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Balances with related parties

At 31 December 2013 and 2012, the Group had the following balances with related parties.

(i) Due from related parties

	2013 RMB'000	2012 RMB'000
Trade receivables		
— Minghao Xiamen	**4,958**	5,415
Other receivables		
— Fujian Hopeland	**—**	1,000
— Mr. Ding Peiji	**—**	36,429
— Think Wise	**—**	—
	—	37,429
	4,958	42,844

(ii) Due to related parties

	2013 RMB'000	2012 RMB'000
Amount due to Think Wise	**144,855**	56,383

The amount due to Think Wise was fully waived subsequent to the end of the reporting period.

The personal guarantee given by Mr. Ding Peiji as at 31 December 2012 in respect of bank loans to the Group was released during the year.

(c) Key management personnel compensation

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 6 and certain of the highest paid employees as disclosed in note 7, is as follows:

	2013 RMB'000	2012 RMB'000
Short-term employee benefits	**3,521**	2,164
Contributions to retirement benefit scheme	**33**	29
	3,554	2,193

Total remuneration is included in "staff costs" (note 4(b)).

(d) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of sales to Minghao Xiamen in note 29(a) above constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section headed "Non-Exempt Continuing Connected Transaction" of the reports of the directors.

30 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(a) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the experience of selling products with similar nature. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down made in prior periods and affect the Group's net assets value. The Group reassesses these estimates at the end of each reporting period.

(b) Impairment of trade and other receivables

The Group estimates the impairment allowances for trade and other receivables by assessing the recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgements. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. The Group reassesses the impairment allowances at the end of each reporting period.

31 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

As at 31 December 2013, the directors consider the immediate and ultimate controlling parties to be Think Wise and Mr. Ding Peiji respectively.

32 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period, the directors proposed a final dividend which is disclosed in note 25.

The amount due to Think Wise at 31 December 2013 was fully waived by Think Wise in January 2014 (see note 29).

On 15 January 2014, the Company's shares were listed on the Stock Exchange following the completion of its initial public offering of 160,000,000 shares to investors.

On 22 January 2014, the Company allotted and issued an additional 24,000,000 shares to investors.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2013

Up to the date of issue of these consolidated financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2013 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to IAS 32, *Financial instruments: Presentation — offsetting financial assets and financial liabilities*	1 January 2014
Amendments to IFRS 10, *Consolidated financial statements*, — IFRS 12, *Disclosure of interests in other entities* — and IAS 27 *Separate financial statements*	1 January 2014
Amendments to IAS 36, *Impairment of assets: Recoverable amount disclosures for non-financial assets*	1 January 2014
IFRIC 21, *Levies*	1 January 2014
Annual improvements to IFRSs 2010–2012 cycle	1 July 2014
Annual improvements to IFRSs 2011–2013 cycle	1 July 2014
IFRS 9, *Financial instruments*	1 January 2015

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.

In addition, the requirements of Part 9, " Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap. 622) come into operation from the Company's first financial year commencing after 3 March 2014 (i.e. the Company's financial year which began on 1 January 2015) in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the consolidated financial statements.

The following table summarizes the consolidated results of our Group for the four years ended 31 December:

	2013	2012	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**661,416**	519,987	392,369	326,974
Gross Profit	**260,086**	195,814	143,909	131,420
Profit from operations	**181,507**	133,258	90,061	88,694
Profit before taxation	**177,181**	130,781	87,882	86,817
Profit for the year	**129,613**	115,438	77,323	75,945
Non-current assets	**96,440**	46,915	48,929	54,044
Current assets	**556,298**	323,948	232,292	218,895
Current liabilities	**281,416**	134,619	160,408	232,244
Net current assets/(liabilities)	**274,882**	189,329	71,884	(13,349)
Net assets	**371,322**	236,244	120,813	40,695
Gross profit margin	**39.3%**	37.7%	36.7%	40.2%
Operating profit margin	**27.4%**	25.6%	22.4%	27.1%
Net profit margin	**19.6%**	22.2%	19.7%	23.2%
Current ratio	**2.0 times**	2.4 times	1.4 times	0.9 times
Gearing ratio	**20.7%**	16.4%	18.5%	104.4%
Inventory turnover day	**30 days**	62 days	112 days	105 days
Trade receivables turnover day	**121 days**	111 days	77 days	30 days
Trade and bills payables turnover day	**12 days**	11 days	11 days	13 days

The Company became listed on 15 January 2014. Financial information for the three years ended 31 December 2010, 2011 and 2012 were extracted from the prospectus of the Company dated 31 December 2013.

MIKO INTERNATIONAL HOLDINGS LIMITED

www.redkids.com