

MIKO INTERNATIONAL HOLDINGS LIMITED

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

2014
INTERIM REPORT





www.redkids.com





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Corporate Information

EXECUTIVE DIRECTORS

Mr. Ding Peiji
Mr. Ding Peiyuan
Ms. Ding Lizhen
Mr. Gu Jishi

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Leung Wai Yip
Mr. Mei Wenjue
Mr. Zhu Wenxin

AUDIT COMMITTEE

Mr. Leung Wai Yip (*Chairman*)
Mr. Mei Wenjue
Mr. Zhu Wenxin

REMUNERATION COMMITTEE

Mr. Mei Wenjue (*Chairman*)
Mr. Zhu Wenxin
Mr. Ding Peiyuan

NOMINATION COMMITTEE

Mr. Zhu Wenxin (*Chairman*)
Mr. Leung Wai Yip
Mr. Gu Jishi

JOINT COMPANY SECRETARIES

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

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 (the "Board") of directors (the "Directors") of Miko International Holdings Limited (the "Company"), I am pleased to present the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2014.

MARKET REVIEW

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

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

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

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

Since the first half of 2014, our research and development efforts started to cover accessories such as underwear, socks, gloves and scarves. In the meantime, we have made good progress in developing products for children aged between 0 and 3 tall. The above measures have provided sustainable profitability for the business of our distributors.



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

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

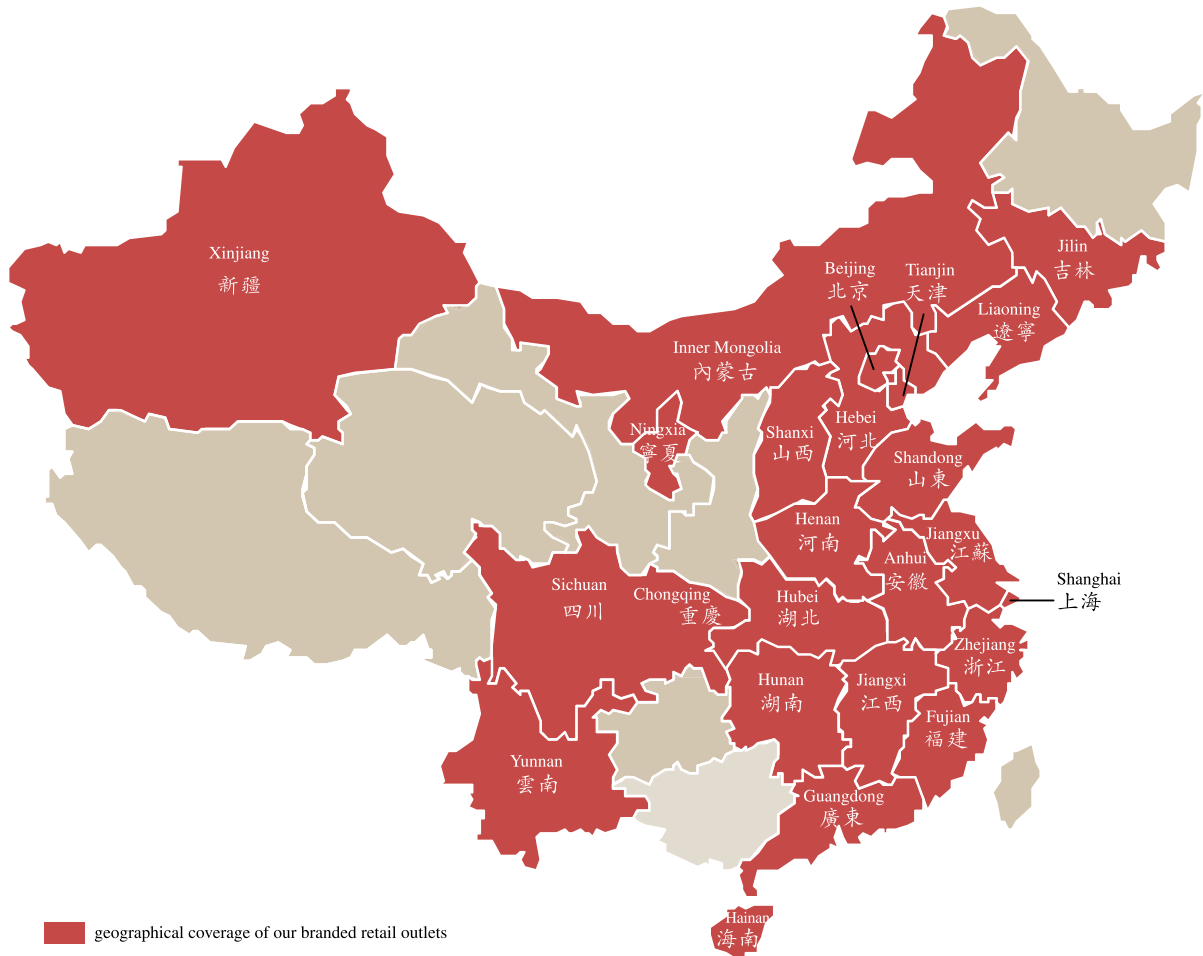
The following table sets forth a breakdown of our branded retail outlets by distribution channel and city type.

	As at 30 June 2014	As at 31 December 2013
Shopping mall outlets and concessions	291	284
Street shops	353	317
	644	601
	As at 30 June 2014	As at 31 December 2013
First-tier cities	97	94
Second-tier cities	83	74
Third-tier cities	53	48
Fourth-tier cities	411	385
	644	601



Chairman's Statement

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



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

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

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

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

OUTLOOK

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

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

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

Ding Peiji

Chairman

20 August 2014





MANAGEMENT DISCUSSION AND ANALYSIS



Management Discussion and Analysis

FINANCIAL REVIEW

Turnover

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

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

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

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

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

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

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

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

Management Discussion and Analysis



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

Cost of Sales

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

Gross Profit and Gross Profit Margin

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

Other Revenue and Other Net (Loss)/Income

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

Selling and Distribution Expenses

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

Management Discussion and Analysis

Administrative and Other Operating Expenses

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

Finance Costs

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

Income Tax Expenses

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

Profit for the Period

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

Working Capital Management

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

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

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

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

Liquidity and Financial Resources

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

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

Management Discussion and Analysis

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

Notes to financial ratios

- (1) Inventory turnover days equal to the average of the opening and closing balances of inventories of the relevant period divided by cost of sales of the relevant period and multiplied by 182 days
- (2) Trade receivables turnover days equal to the average of the opening and closing balances of trade receivables of the relevant period divided by turnover of the relevant period and multiplied by 182 days
- (3) Trade payables turnover days equal to the average of the opening and closing balances of trade payables of the relevant period divided by cost of sales of the relevant period and multiplied by 182 days
- (4) Current ratio equals to current assets divided by current liabilities as of the end of the period
- (5) Gearing ratio equals to total of bank and other borrowings divided by total equity as of the end of the period

Capital Commitments and Contingent Liabilities

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

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

Pledge of Assets

Bank deposits, certain properties and lease prepayments with total carrying amount of RMB11.0 million as of 30 June 2014 (31 December 2013: RMB11.5 million) were pledged for the banking facilities.

Foreign Exchange Rate Risk

As our Group's operations are mainly conducted in China and the majority of the sales and purchases are transacted in Reminbi, the Directors are of the view that our Group's operating cash flow and liquidity are not subject to significant foreign exchange rate risks.

Significant Investments and Material Acquisitions and Disposals of Subsidiaries

During 1H 2014, our Group did not have any significant investments or acquisitions or sales of subsidiaries. Our Group will continue to seek opportunities to increase its portfolio of brands through strategic acquisitions or alliances in order to generate more returns to its shareholders. No plans have been authorized by the Board for any material investments or additions of capital assets as at the date of this interim report.

USE OF PROCEEDS

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

Management Discussion and Analysis

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

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

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

Corporate Governance and Other Information

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance and has steered its development and protected the interests of its shareholders in an enlightened and open manner. Currently, the Board comprises four executive Directors and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code (“Code Provisions”) set out in Appendix 14 to the Rules Governing the Listing of Securities (“Listing Rules”) on the Stock Exchange. Throughout the period since the date of listing of the Company on the Main Board of the Stock Exchange on 15 January 2014 (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. 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.

AUDIT COMMITTEE

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

EMPLOYEES AND REMUNERATION POLICIES

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

The emolument policy of the Group is aimed at attracting, retaining and motivating talent individuals. Monthly salary and annual performance related bonus for each employee is generally determined based on his or her job nature and position with reference to market standards. Our emolument policy will be adjusted depending on a number of factors, including changes to the market practice and stages of our business development, so as to achieve our operational targets. Pre-IPO share options have been granted to employees of our Group to reward their contributions and also to motivate them to optimize their performance and efficiency. Further details of the Pre-IPO share options are set out on page 21 of this report.

INTERIM DIVIDEND

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

Corporate Governance and Other Information

CLOSURE OF REGISTER OF MEMBERS

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

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date to 30 June 2014.

SUFFICIENCY PUBLIC FLOAT

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2014, 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%

Corporate Governance and Other Information

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 30 June 2014, 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 30 June 2014, 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.

Save as disclosed above, at no time was the Company, its holding company, or any of its subsidiaries a party to any arrangements to enable the Directors and the chief executive of the Company (including their spouse and children under 18 years of age) to hold any interest or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO).

Corporate Governance and Other Information

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2014, 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.

Corporate Governance and Other Information

- (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 30 June 2014 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 30 June 2014, 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.

DIRECTORS' INTERESTS IN CONTRACTS

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 30 June 2014 or at any time during the period.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

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 period.

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

Corporate Governance and Other Information

There was no exercise, lapse or cancellation of Pre-IPO Share Options during the six months ended 30 June 2014. 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 30 June 2014, 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 of the Company 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.

Corporate Governance and Other Information

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 30 June 2014, and up to date of this report, no option had been granted under the Share Option Scheme.

Independent Auditor's Review Report



Review report to the board of directors of

Miko International Holdings Limited

(Incorporated in Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 25 to 36 which comprises the consolidated statement of financial position of Miko International Holdings Limited ("the Company") as of 30 June 2014 and the related consolidated statement of profit or loss and other comprehensive income and the consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2014 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

20 August 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended 30 June 2014-unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2014 RMB'000	2013 RMB'000
Turnover	3	315,162	253,185
Cost of sales		(193,174)	(158,546)
Gross profit		121,988	94,639
Other revenue	5	1,550	230
Other net income/(loss)	5	110	(781)
Selling and distribution expenses		(28,776)	(22,509)
Administrative and other operating expenses		(29,084)	(12,262)
Profit from operations		65,788	59,317
Finance costs	6(a)	(2,201)	(1,582)
Profit before taxation	6	63,587	57,735
Income tax	7	(19,964)	(15,507)
Profit for the period		43,623	42,228
Other comprehensive income for the period			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of operations outside mainland China		(923)	2,258
Total comprehensive income for the period		42,700	44,486
Earnings per share (RMB cents)			
Basic and diluted	8	5	7

The notes on pages 29 to 36 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 14(c).

Consolidated Statement of Financial Position

as at 30 June 2014-unaudited
(Expressed in Renminbi)

	Note	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
Non-current assets			
Property, plant and equipment	9	47,022	39,021
Intangible assets		522	535
Lease prepayments		2,985	3,029
Deposits for purchase of a property		92,000	51,750
Deferred tax assets		3,883	2,105
		146,412	96,440
Current assets			
Inventories	10	34,819	38,761
Trade and other receivables	11	237,277	257,458
Restricted bank deposits		1,200	—
Fixed deposits held at banks with maturity over three months		47,680	—
Cash and cash equivalents	12	464,962	260,079
		785,938	556,298
Current liabilities			
Bank loans		37,700	76,890
Trade and other payables	13	43,451	188,573
Current taxation		10,610	15,953
		91,761	281,416
Net current assets		694,177	274,882
Total assets less current liabilities		840,589	371,322
Net assets		840,589	371,322
Equity			
Share capital	14(a)	6,483	8
Reserves		834,106	371,314
Total equity		840,589	371,322

Approved and authorised for issue by the board of directors on 20 August 2014.

Ding Peiji
Director

Ding Peiyuan
Director

The notes on pages 29 to 36 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2014-unaudited
(Expressed in Renminbi)

	Note	Share capital RMB'000	Share premium RMB'000	Share-based payments reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Statutory reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2013		520	—	—	—	5,508	23,025	207,191	236,244
Changes in equity for the six months ended 30 June 2013:									
Profit for the period		—	—	—	—	—	—	42,228	42,228
Other comprehensive income		—	—	—	—	2,258	—	—	2,258
Total comprehensive income		—	—	—	—	2,258	—	42,228	44,486
Shares issued for reorganisation		8	—	—	—	—	—	—	8
Reduction in capital upon reorganisation		(520)	—	—	—	—	—	—	(520)
Equity-settled share-based transaction		—	—	1,946	—	—	—	—	1,946
Appropriation to statutory reserve		—	—	—	—	—	4,426	(4,426)	—
Balance at 30 June 2013		8	—	1,946	—	7,766	27,451	244,993	282,164

	Note	Share capital RMB'000 14(a)	Share premium RMB'000 14(b)	Share-based payment reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Statutory reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2014		8	—	1,947	—	9,538	37,052	322,777	371,322
Changes in equity for the six months ended 30 June 2014:									
Profit for the period		—	—	—	—	—	—	43,623	43,623
Other comprehensive income		—	—	—	—	(923)	—	—	(923)
Total comprehensive income		—	—	—	—	(923)	—	43,623	42,700
Capital contribution	14(d)	—	—	—	145,549	—	—	—	145,549
Capitalisation issue	14(a(ii))	5,027	(5,027)	—	—	—	—	—	—
Shares issued by global offering	14(a(iii))	1,448	310,721	—	—	—	—	—	312,169
Equity-settled share-based transaction		—	—	1,640	—	—	—	—	1,640
Dividend declared	14(c(ii))	—	(32,791)	—	—	—	—	—	(32,791)
Appropriation to statutory reserve		—	—	—	—	—	5,972	(5,972)	—
Balance at 30 June 2014		6,483	272,903	3,587	145,549	8,615	43,024	360,428	840,589

The notes on pages 29 to 36 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2014-unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2014 RMB'000	2013 RMB'000
Operating activities			
Cash generated from operations		87,830	122,688
Income tax paid		(27,086)	(13,974)
Net cash generated from operating activities		60,744	108,714
Investing activities			
Payment for the purchase of property, plant and equipment		(49,742)	(51,750)
Placement of fixed deposits held at banks with maturity over three months		(47,680)	—
Interest received	5	1,214	230
Net cash used in investing activities		(96,208)	(51,520)
Financing activities			
Gross proceeds from global offering	14(a)(iii)	330,080	—
Payments of listing related expenses		(15,890)	—
Net advance from related parties		—	90,382
Dividends paid	14(c)	(32,791)	—
Proceeds from bank loans		37,700	54,690
Repayments of bank loans		(76,890)	(24,900)
Interest paid	6(a)	(2,201)	(1,582)
Net cash generated from financing activities		240,008	118,590
Net increase in cash and cash equivalents		204,544	175,784
Cash and cash equivalents at 1 January	12	260,079	8,894
Effect of foreign exchanges rate changes		339	1,746
Cash and cash equivalents at 30 June	12	464,962	186,424

The notes on pages 29 to 36 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

1 BASIS OF PREPARATION

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

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

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

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

The interim financial report is unaudited, but has been reviewed by the audit committee of the Company. It has also been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). KPMG’s independent review report to the Board of Directors is included on page 24.

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

2 CHANGES IN ACCOUNTING POLICIES

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

Amendments to IAS 32, Offsetting financial assets and financial liabilities

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

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

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

3 TURNOVER

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

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

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

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

4 SEASONALITY OF OPERATION

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

5 OTHER REVENUE AND OTHER NET INCOME/(LOSS)

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

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

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

(i) Research and development for the six months ended 30 June 2014 includes RMB1,438,000 (six months ended 30 June 2013: RMB1,171,000) relating to staff salaries which amount is included in the total amounts disclosed in notes 6(b) above.

(ii) Cost of inventories for the six months ended 30 June 2014 includes RMB11,350,000 (six months ended 30 June 2013: RMB7,936,000) relating to staff costs and depreciation, which amount is included in the respective total amounts disclosed separately in notes 6(b) and (c) above for each of these types of expenses.

7 INCOME TAX

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

(i) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands or BVI.

(ii) No provision was made for Hong Kong Profits Tax as the Group did not earn any assessable profit subject to Hong Kong Profits Tax for six months ended 30 June 2013 and 2014.

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

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

8 EARNINGS PER SHARE**(a) Basic earnings per share**

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

(b) Diluted earnings per share

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

9 PROPERTY, PLANT AND EQUIPMENT

- (a) During the six months ended 30 June 2014, the Group acquired items of plant and machinery with cost of RMB9,487,000 (six months ended 30 June 2013: Nil). No impairment loss was recognised during the six months ended 30 June 2014.
- (b) Buildings with net book value of RMB9,173,000 as at 30 June 2014 (31 December 2013: RMB9,598,000) were mortgaged to banks for certain bank loans of RMB18,000,000 (31 December 2013: RMB18,000,000) granted to Red Kids (China) Co., Ltd. ("Red Kids China"), a principal operating subsidiary of the Group.
- (c) The ownership certificates for buildings with net book value of RMB22,813,000 (31 December 2013: RMB 23,459,000) have not been obtained.

10 INVENTORIES

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

11 TRADE AND OTHER RECEIVABLES

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

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

11 TRADE AND OTHER RECEIVABLES (Continued)

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

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

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

12 CASH AND CASH EQUIVALENTS

	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
Cash at bank and in hand	464,962	260,079

13 TRADE AND OTHER PAYABLES

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

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

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

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

14 SHARE CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

(i) Authorised and issued share capital

	At 30 June 2014			At 31 December 2013		
	No. of shares	HK\$'000	RMB'000	No. of shares	HK\$'000	RMB'000
Authorised:						
Ordinary shares of HK\$0.01 each	10,000,000,000	100,000	79,380	10,000,000,000	100,000	78,620
Ordinary shares, Issued and fully paid:						
At 15 March 2013	—	—	—	100	—	—
Reorganisation	—	—	—	999,900	10	8
At 1 January 2014	1,000,000	10	8	—	—	—
Capitalisation issue (Note 14(a)(ii))	639,000,000	6,390	5,027	—	—	—
Shares issued by global offering (Note 14(a)(iii))	184,000,000	1,840	1,448	—	—	—
At 30 June/31 December	824,000,000	8,240	6,483	1,000,000	10	8

(ii) Capitalisation issue

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

(iii) Shares issued by global offering

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

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

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

14 SHARE CAPITAL, RESERVES AND DIVIDENDS (Continued)**(b) Share premium**

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

(c) Dividends

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

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

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

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

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

(d) Capital contribution

Think Wise Holding Investment Limited ("Think Wise"), the immediate controlling party of the Group waived an outstanding amount of HK\$184,239,688 (equivalent to RMB145,549,000) due from Red Kids Group (Hong Kong) Limited ("Red Kids Hong Kong"), a subsidiary of the Group in January 2014. This deed of waiver has been reflected as a reduction of amount due to Think Wise and a corresponding increase in the capital reserve of the Group during the six months ended 30 June 2014.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

15 CAPITAL COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
Contracted for	31,751	67,276

16 MATERIAL RELATED PARTY TRANSACTIONS**(a) Transactions with a related party**

Minghao (Xiamen) Children Products Co., Ltd. ("Minghao Xiamen"), 80% owned by Mr. Ding Peijie who is the brother of the Chairman of the Group, is a distributor of the Group. Sales to Minghao Xiamen during the six months ended 30 June 2014 amounted to RMB10,342,000 (six months ended 30 June 2013: RMB10,919,000). At 30 June 2014, the trade receivable from Minghao Xiamen is RMB6,687,000 (31 December 2013: RMB4,958,000).

(b) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors were as follows:

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Short-term employee benefits	3,539	1,480
Contributions to retirement benefit scheme	17	16
Equity-settled share-based payments	1,266	—
	4,822	1,496

The total remuneration is included in "staff costs" (see note 6(b)).

17 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

After the end of the reporting period the Directors has recommended an interim dividend. Further details are disclosed in note 14(c(i)).

MIKO INTERNATIONAL HOLDINGS LIMITED

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