MIKO INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 01247

redkids

红孩儿

www.redkids.com

Contents

Corporate Information

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Cricket Square
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Cayman Islands

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Room 1601, Ho King Commercial Centre
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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

JOINT COMPANY SECRETARIES
Mr. Ng Cheuk Him *HKICPA, HKICS*
Ms. Lu Yanping

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

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

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


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Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Miko International Holdings Limited (the "Company", together with its subsidiaries, the "Group"), I am pleased to present our annual results for the year ended 31 December 2014.

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

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

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

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

In 2014, we put more effort into product innovation. We launched the Elegant Little Girl series which was embellished with lace and embroidery details and used the popular macaroon colours to breathe life into the personalised, quality and safe children's apparels. Brand characteristics were manifested through the perfect combination of fashion and comfort embodied in the series. In the fourth quarter of 2014, we rolled out apparels for infants of 0–3 years old to enrich the product offerings

of our "redkids" brand and further consolidated of our leading position in China's mid-to-high end children's apparel market, providing sustainable profitability for the businesses of our distributors. Meanwhile, our Group will also consider acquiring other brands when suitable opportunities arise to realise our multi-brand strategies.

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

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

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

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

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

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

Note 1:

First-tier cities: Beijing, Shanghai, Guangzhou and Shenzhen

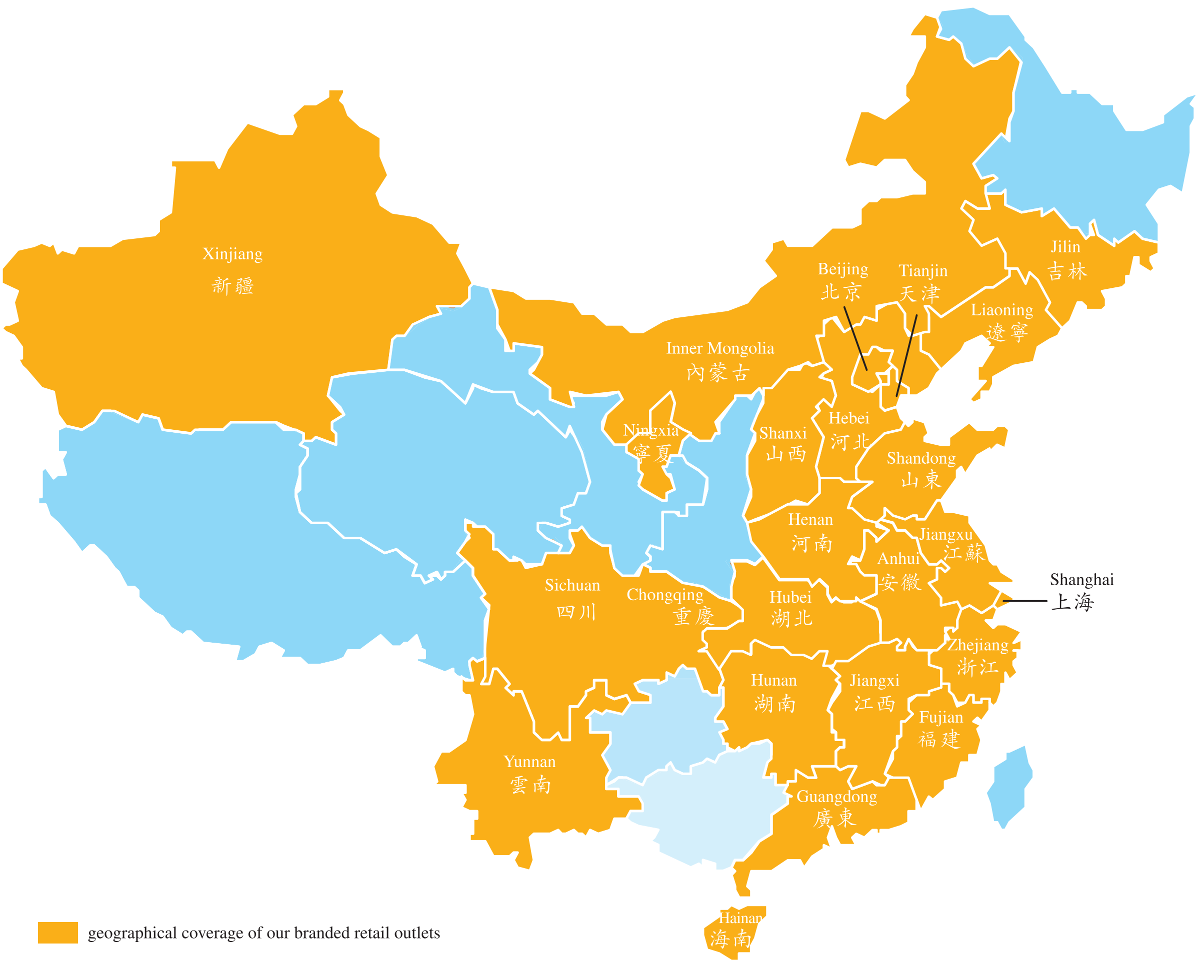
Second-tier cities: the capitals of provinces in the PRC excluding Guangzhou, municipalities excluding Shanghai and Beijing, and the capitals of the autonomous regions in the PRC

Third-tier cities: Prefecture-level cities in the PRC, excluding any first-and second-tier cities

Fourth-tier cities: Country-level and other townships-level cities

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

The following chart illustrates our Group's distribution map at the date of this annual report.



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

Ding Peiji
Chairman

18 March 2015

Management Discussion and Analysis

Management Discussion and Analysis

Turnover

Our turnover reached historical high for the year ended 31 December 2014 (the "FY2014"). It increased by approximately 20.3%, from RMB661.4 million for the year ended 31 December 2013 (the "FY2013") to RMB795.7 million for FY2014. Leveraged by our differentiated value-for-money products and the further enhancement of brand recognition of our products, sales volume and average wholesale price of our products for FY2014 recorded an increase by approximately 18.9% and 1.6%, respectively, as compared to that for the same period last year.

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

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

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

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

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

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

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

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

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

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

Cost of Sales

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

Gross Profit and Gross Profit Margin

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

Other Revenue and Other Net Loss

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

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

Selling and Distribution Expenses

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

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

Administrative and Other Operating Expenses

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

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

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

Finance Costs

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

Income Tax

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

Profit for the Year

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

Working Capital Management

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

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

Inventories

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

Trade Receivables

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

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

Trade Payables

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

Liquidity and Financial Resources

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

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

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

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

Notes to financial ratios

(1) Inventory turnover days equal to the average of the opening and closing balances of inventories of the relevant period divided by cost of sales of the relevant year and multiplied by 365 days

(2) Trade receivables turnover days equal to the average of the opening and closing balances of trade receivables of the relevant period divided by turnover of the relevant year and multiplied by 365 days

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

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

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

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

Treasury Policy and Market Risks

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

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

Capital Commitments

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

Contingent Liabilities

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

Pledge of Assets

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

Significant Investments and Material Acquisitions and Disposals of Subsidiaries

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

USE OF PROCEEDS

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

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

	Percentage to the Net Proceeds	**Net Proceeds** RMB'million	**Utilized amount** RMB'million	**Unutilized amount** *(Note 2)* RMB'million
Establish self-operated retail stores *(Note 1)*	32.1%	91.5	—	91.5
Enhance design and research and development capabilities in our design center in Shanghai	26.9%	76.7	—	76.7
Recruit at least 30 additional design and research and development staff	4.2%	12.0	0.7	11.3
Joint programs with established universities in the PRC and international corporations	6.5%	18.5	—	18.5
Establish an ERP system	20.3%	57.9	3.3	54.6
Marketing and promotional activities	5.0%	14.2	14.2	—
Working capital and general corporate purposes	5.0%	14.2	14.2	—
	100.0%	285.0	32.4	252.6

Notes:

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

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

Employees and Remuneration Policies

The emolument policy of the Group is aimed at attracting, retaining and motivating talent individuals. The principle is to have performance based remuneration which reflects market standards. Remuneration package for each employee is generally determined based on his or her job nature and position with reference to market standards. Our emolument policy will be adjusted depending on a number of factors, including changes to the market practice and stages of our business development, so as to achieve our operational targets. As at 31 December 2014, we employed around 700 full-time employees. The total staff costs for FY2014 was approximately RMB51.9 million (FY2013: RMB30.9 million).

Subsequent Events

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

(ii) On 13 June 2013, Red Kids (China) Co., Ltd. (紅孩兒（中國）有限公司) ("Red Kids China"), an indirect wholly owned subsidiary of our Group, entered into a pre-purchase agreement ("Pre-purchase Agreement") with Shanghai Fashitu Investment Group Limited (上海法詩圖投資集團有限公司) ("Shanghai Fashitu"), an independent third party, pursuant to which Red Kids China agreed to acquire from Shanghai Fashitu a building ("Building No.18") under construction situated at Shangzhifang Fashion Culture Creative Park, No. 6066, Songze Avenue, Qingpu District, Shanghai (the

"Shangzhifang Fashion Culture Creative Park") with a gross floor area of 10,709.6 sq.m.. Red Kids China has paid a total of RMB92.0 million (the "Advance Payments") towards the total consideration payable under the Pre-purchase Agreement as at 31 December 2014 and the date of this annual report.

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

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

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

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 on the Stock Exchange (the "Listing Rules"). The shares of the Company were listed on the Stock Exchange on 15 January 2014 (the "Listing Date"). Throughout the period since the Listing Date and up to the date of this annual report, the Company has complied with the Code Provisions, except for code provisions A.2.1 and A.6.7.

Code provision A.2.1 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.

Code provision A.6.7 stipulates that, among others, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Two executive Directors and three independent non-executive Directors of the Company did not attend the annual general meeting of the Company held on 23 May 2014 due to other work commitments. The Company will strengthen its annual general meeting planning process, by giving all Directors sufficient time to arrange their work in advance and providing any necessary support for their presence and participation in the meeting, so as to facilitate all Directors to attend the Company's future annual general meetings.

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 annual 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 29 to 30 of 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 AND ANNUAL GENERAL MEETING

There were four Board meetings and one annual general meeting held during the year ended 31 December 2014. The attendance of each Director at the Board meetings and annual general meeting are set out below:

Name of Director	Annual General Meeting attendance/held	Board Meetings attendance/held
Mr. Ding Peiji	1/1	4/4
Mr. Ding Peiyuan	0/1	4/4
Ms. Ding Lizhen	0/1	4/4
Mr. Gu Jishi	1/1	4/4
Mr. Leung Wai Yip	0/1	4/4
Mr. Mei Wenjue	0/1	4/4
Mr. Zhu Wenxin	0/1	3/4

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, updates on the latest development regarding the Listing Rules and other applicable regulatory requirements are provided to each of the Directors by ways of seminar or reading materials circularization to ensure compliance and enhance their awareness of good corporate governance practices. According to the records provided by the Directors, a summary of training received by the Directors during the year is as follows:

Directors	**Type of continuous professional development programmes**
Executive Directors	
Mr. Ding Peiji	A
Mr. Ding Peiyuan	A
Ms. Ding Lizhen	A
Mr. Gu Jishi	A
Independent Non-executive Directors	
Mr. Leung Wai Yip	A
Mr. Mei Wenjue	A
Mr. Zhu Wenxin	A

Notes:

A: reviewing materials and updates relating to the latest development of the Listing Rules and other applicable regulatory requirements

Subsequent to the year ended 31 December 2014, the Company has organised one training session for all Directors conducted by the Company's Hong Kong legal advisers in March 2015. The training session covered topics including, among others, the requirements of the Model Code and the disclosure of inside information.

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 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.

Audit Committee has held three meetings during the year ended 31 December 2014. Major tasks completed by the Audit Committee during the year includes:

- reviewing the annual audit plan submitted by KPMG, the external auditor of the Company;
- reviewing the Group's interim and annual report;
- reviewing accounting policies and practices adopted by the Group;
- reviewing the external auditor's qualifications, independence and audit fee;
- reviewing the external auditor's management letter and the management's response;
- assisting the Board to evaluate on the effectiveness of financial reporting procedures and internal control system; and
- reviewing the "Non-Exempt Continuing Connected Transaction" set out on pages 35 to 36 of this annual report.

The attendance records of each member of the Audit Committee are set out in the following table:

	Audit Committee meeting attendance/held
Independent non-executive Directors	
Mr. Leung Wai Yip	3/3
Mr. Mei Wenjue	3/3
Mr. Zhu Wenxin	2/3

(ii) Remuneration Committee

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.

The Remuneration Committee has held one meeting during the year ended 31 December 2014. All members of the Remuneration Committee have attended the meeting.

The remuneration of the members of the senior management of the Group by band for the year ended 31 December 2014 is set out below:

Remuneration bands	number of persons
Nil to RMB500,000	1
RMB500,001 to RMB1,000,000	1
RMB2,000,001 to RMB2,500,000	1

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 7 and 8 to the financial statements.

(iii) Nomination Committee

The Nomination Committee 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.

The Nomination Committee has held one meeting during the year ended 31 December 2014. All members of the Nomination Committee have attended the meeting.

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 has performed the abovementioned corporate governance functions during the year ended 31 December 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.

Mr. Ng Cheuk Him and Ms. Lu Yanping confirmed that they have taken not less than 15 hours relevant professional training during the period from the Listing Date to 31 December 2014.

The biographical details of the Joint Company Secretaries are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 29 to 30 of 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 2014, the fees payable to KPMG in respect of its audit services and review of unaudited interim results were RMB1.7 million and RMB0.8 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 2014.

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.

INVESTOR RELATIONS AND COMMUNICATION

The Company recognizes the importance of communication with Shareholders and accountability to Shareholders. Annual and interim reports offer comprehensive operational and financial performance information to Shareholders. The Company's senior management also maintains close communication with investors, analysts and the media by other channels including roadshows, briefings and individual meetings. The Company has set up its own website http://www.redkids.com, which is updated on a regular basis, as a means to provide updated information on the Company to investors.

CONSTITUTIONAL DOCUMENTS

There was no change in the memorandum and articles of association of the Company during the year ended 31 December 2014.

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

EXECUTIVE DIRECTORS

Mr. Ding Peiji (丁培基), aged 44, 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 14 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 41, 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 9 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 48, 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 14 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 44, 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 11 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 38, 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.

Biographical Details of Directors and Senior Management

Mr. Mei Wenjue (梅文珏), aged 44, 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), the deputy representative of CSA in the safety security and quality functional executives of Skyteam (天合聯盟) and 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). Currently, he is the chief executive officer of Reocar Car Rental Group (瑞卡連鎖租車集團). 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 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 42, 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 40, 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 14 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 (丁皖皖), aged 40, 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.

Mr. Wu Chentong (伍臣通), aged 40, is a finance manager of our Group. Mr. Wu has over 16 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 26, 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.

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 2014.

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 16 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2014, aggregate sales to the Group's largest and five largest customers accounted for 20.4% (2013: 18.6%) and 52.8% (2013: 49.5%), respectively, of the Group's total turnover for the year.

During the year ended 31 December 2014, aggregate purchases from the Group's largest and five largest suppliers of raw materials and OEM products accounted for 8.9% (2013: 12.6%) and 40.1% (2013: 47.7%), 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.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the latest five 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 2014 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 43 to 49 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 2014 are set out in note 11 to the financial statements.

RESERVES

Details of movements in reserves of the Company and the Group are set out in note 26 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

The distributable reserve of the Company as at 31 December 2014 was RMB242,134,000 (2013: Nil).

DIVIDEND

The Directors recommended the payment of a final dividend of HK2 cents per ordinary share in respect of the year ended 31 December 2014 (2013: A special dividend of HK5 cents per ordinary share), subject to the approval of the Shareholders at the upcoming annual general meeting of the Company to be held on 21 May 2015.

An interim dividend of HK2 cents per ordinary share (2013: Nil) was paid on 19 September 2014.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to RMB0.01 million (2013: RMB0.1 million).

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 26 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 period from 15 January 2014 to 31 December 2014.

DIRECTORS

The Directors during the financial year were:

Executive Directors

Mr. Ding Peiji *(Chairman)*
Mr. Ding Peiyuan
Ms. Ding Lizhen
Mr. Gu Jishi

Independent non-executive Directors

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

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 7 to the financial statements.

Details of the Directors' biographies have been set out on pages 29 to 30 of the annual report. In accordance with article 84 of the Company's articles of association, Mr. Ding Peiyuan, Ms Ding Lizhen and Mr. Mei Wenjue 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 2014.

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 31 December 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(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 31 December 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 31 December 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.

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 31 December 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[7]
Think Wise[1]	L[5]	Beneficial owner	319,076,694	38.72%
Mr. Ding[1]	L[5]	Interest in a controlled corporation	319,076,694	38.72%
Opulent Ample[2]	L[5]	Beneficial owner	42,240,000	5.28%
Mr. Ding Weizhu[2]	L[5]	Interest in a controlled corporation	42,240,000	5.28%
Snowy Wise[3]	L[5]	Beneficial owner	42,240,000	5.13%
Ms. Ding Lizhen[3]	L[5]	Interest in a controlled corporation	42,240,000	5.13%
		Beneficial owner	800,000[6]	0.10%
Rightful Style[4]	L[5]	Beneficial owner	42,240,000	5.13%
Mr. Ding Peiyuan[4]	L[5]	Interest in a controlled corporation	42,240,000	5.13%
		Beneficial owner	800,000[6]	0.10%

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) The letter "L" denotes long position.

(6) 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.

(7) The calculation is based on the total number of 824,000,000 ordinary Shares of the Company in issue as at 31 December 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 31 December 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.

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 the Company and Mr. Ding Peiji is also the chief executive officer and a substantial Shareholder of the Company, all of them are connected persons of the Group. Pursuant to Rule 14A.12(2)(b) 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 the Group.

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

The prices for the sales of children's apparel products to Xiamen Minghao are agreed between Xiamen Minghao and the Group from time to time after arm's length negotiation and are comparable to market prices of similar products that the 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 2014, the sales of children's apparel products of the Group to Xiamen Minghao amounted to RMB22.9 million (FY2013: RMB20.4 million), which was below the prescribed annual cap of RMB26.0 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.56 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 during the year.

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 0.8% of the Company's issued share capital as at the date of this annual 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

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 annual 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.

The table below sets forth the movement of the Pre-IPO Share Options during the year.

	Number of Pre-IPO Share Options				
Name	**As at 1 January 2014**	**Granted during the year**	**Exercised during the year**	**Forfeited during the year**	**As at 31 December 2014**
Directors					
Mr. Ding Peiyuan	800,000	—	—	—	800,000
Ms. Ding Lizhen	800,000	—	—	—	800,000
Mr. Gu Jishi	800,000	—	—	—	800,000
Others					
In aggregate	4,600,000	—	—	650,000	3,950,000
Total	7,000,000	—	—	650,000	6,350,000

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 2014, and up to date of this annual 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 24 to the financial statements.

AUDITOR

The consolidated financial statements for the year ended 31 December 2014 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, 18 March 2015

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 43 to 87, which comprise the consolidated and company statements of financial position as at 31 December 2014, 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.

Independent Auditor's Report

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 2014 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

18 March 2015

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014
(Expressed in Renminbi)

	Note	**2014** **RMB'000**	2013 RMB'000
Turnover	3	**795,699**	661,416
Cost of sales		**(495,367)**	(401,330)
Gross profit		**300,332**	260,086
Other revenue	4	**2,865**	2,051
Other net loss	4	**(1,578)**	(1,368)
Selling and distribution expenses		**(57,935)**	(47,002)
Administrative and other operating expenses		**(46,956)**	(32,260)
Profit from operations		**196,728**	181,507
Finance costs	5(a)	**(3,409)**	(4,326)
Profit before taxation	5	**193,319**	177,181
Income tax	6(a)	**(55,405)**	(47,568)
Profit for the year attributable to shareholders of the Company		**137,914**	129,613
Other comprehensive income for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of operations outside mainland China		**629**	4,030
Total comprehensive income for the year attributable to shareholders of the Company		**138,543**	133,643
Earnings per share (RMB cents)			
— Basic	10(a)	**17**	20
— Diluted	10(b)	**17**	20

The notes on pages 50 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 26(b).

Consolidated Statement of Financial Position

As at 31 December 2014
(Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Non-current assets			
Property, plant and equipment	11	**56,022**	38,047
Construction in progress	13	**—**	974
Intangible assets	14	**490**	535
Lease prepayments	15	**2,941**	3,029
Deposits for purchase of a property	12	**92,000**	51,750
Deposits for purchase of an intangible asset		**3,300**	—
Deferred tax assets	17(b)	**2,843**	2,105
		157,596	96,440
Current assets			
Inventories	18	**41,783**	38,761
Trade and other receivables	19(a)	**333,226**	257,458
Pledged bank deposits	20	**2,000**	—
Fixed deposits at banks with original maturity over three months		**52,680**	—
Cash and cash equivalents	21(a)	**432,384**	260,079
		862,073	556,298
Current liabilities			
Bank loans	22	**37,700**	76,890
Trade and other payables	23(a)	**38,865**	188,573
Current tax payable	17(a)	**16,643**	15,953
		93,208	281,416
Net current assets		**768,865**	274,882
Total assets less current liabilities		**926,461**	371,322
Non-current liabilities			
Deferred tax liabilities	17(b)	**1,300**	—
Net assets		**925,161**	371,322

The notes on pages 50 to 87 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2014
(Expressed in Renminbi)

	Note	**2014** **RMB'000**	2013 RMB'000
Equity			
Share capital	26	**6,483**	8
Reserves	26	**918,678**	371,314
Total equity		**925,161**	371,322

Approved and authorised for issue by the board of directors on 18 March 2015.

Ding Peiji
Director

Ding Peiyuan
Director

The notes on pages 50 to 87 form part of these financial statements.

Statement of Financial Position

As at 31 December 2014
(Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Non-current asset			
Investment in a subsidiary	16	**3,436**	—
Amount due from a subsidiary	19(b)	**240,937**	—
		244,373	—
Current assets			
Other receivables		**8**	2,680
Cash and cash equivalents	21(a)	**4,985**	33
		4,993	2,713
Current liabilities			
Amount due to a subsidiary	23(b)	**—**	5,591
Other payables and accruals	23(b)	**749**	3,505
		749	9,096
Net current assets/(liabilities)		**4,244**	(6,383)
Total assets less current liabilities		**248,617**	(6,383)
Net assets		**248,617**	(6,383)
Equity			
Share capital	26	**6,483**	8
Reserves	26	**242,134**	(6,391)
Total equity		**248,617**	(6,383)

Approved and authorised for issue by the board of directors on 18 March 2015.

Ding Peiji
Director

Ding Peiyuan
Director

The notes on pages 50 to 87 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014
(Expressed in Renminbi)

	Note	Share capital RMB'000	Share premium RMB'000	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 2013		520	—	—	—	5,508	23,025	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 transaction		—	—	1,947	—	—	—	—	1,947
Appropriation to statutory reserve		—	—	—	—	—	14,027	(14,027)	—
Balance at 31 December 2013		8	—	1,947	—	9,538	37,052	322,777	371,322

The notes on pages 50 to 87 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014
(Expressed in Renminbi)

	Note	Share capital RMB'000 26(c)	Share premium RMB'000 26(d)(i)	Share-based payment reserve RMB'000 26(d)(iv)	Capital reserve RMB'000 26(d)(v)	Exchange reserve RMB'000 26(d)(iii)	Statutory reserve RMB'000 26(d)(ii)	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 2014:									
Profit for the year		—	—	—	—	—	—	137,914	137,914
Other comprehensive income		—	—	—	—	629	—	—	629
Total comprehensive income		—	—	—	—	629	—	137,914	138,543
Capital contribution	26(d)(v)	—	—	—	145,549	—	—	—	145,549
Capitalisation issue	26(c)(ii)	5,027	(5,027)	—	—	—	—	—	—
Share issued by global offering	26(c)(iii)	1,448	310,721	—	—	—	—	—	312,169
Equity-settled share-based transaction		—	—	3,436	—	—	—	—	3,436
Dividends declared	26(b)(i)	—	(45,858)	—	—	—	—	—	(45,858)
Appropriation to statutory reserve	26(d)(ii)	—	—	—	—	—	16,344	(16,344)	—
Balance at 31 December 2014		**6,483**	**259,836**	**5,383**	**145,549**	**10,167**	**53,396**	**444,347**	**925,161**

The notes on pages 50 to 87 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2014
(Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Operating activities			
Cash generated from operations	21(b)	**118,789**	216,278
Income tax paid		**(54,153)**	(37,088)
Net cash generated from operating activities		**64,636**	179,190
Investing activities			
Payment for the purchase of property, plant and equipment and intangible assets		**(63,728)**	(53,535)
Placement of fixed deposits at banks with original maturity over three months		**(52,680)**	—
Placement of pledged deposits		**(2,000)**	—
Interest received	4	**1,794**	834
Net cash used in investing activities		**(116,614)**	(52,701)
Financing activities			
Gross proceeds from global offering	26(c)(iii)	**330,080**	—
Payment of expenses related to global offering		**(17,421)**	(1,058)
Proceeds from bank loans		**37,700**	76,890
Repayment of bank loans		**(76,890)**	(38,800)
Net advance from related parties		**—**	91,997
Dividends paid		**(45,858)**	—
Interest paid	5(a)	**(3,409)**	(4,326)
Net cash generated from financing activities		**224,202**	124,703
Net increase in cash and cash equivalents		**172,224**	251,192
Cash and cash equivalents at 1 January		**260,079**	8,894
Effect of foreign exchange rate changes		**81**	(7)
Cash and cash equivalents at 31 December	21(a)	**432,384**	260,079

The notes on pages 50 to 87 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the consolidated financial statements

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

The measurement basis used in the preparation of the financial statements is the historical cost basis except that derivative financial instruments are stated at their fair value as explained in the accounting policy as set out in note 1(e).

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies

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

— Amendments to IAS 32, Offsetting financial assets and financial liabilities

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

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

(d) 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 flow and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the 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(j)(ii)).

(e) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(f) Property, plant and equipment

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

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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) 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.

(g) Lease prepayments

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

(h) 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(j)(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.

(i) 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 term, 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)

(j) 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. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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 years.

Impairment losses recognised in respect of trade 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 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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment of assets (Continued)

(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.

If any such indication exists, the asset's recoverable 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 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 an 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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment of assets (Continued)

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(j)(i) and (ii)).

(k) 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.

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter are stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(j)(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 allowance for impairment of doubtful debts.

(m) 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.

(n) Trade and other payables

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

(o) 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.

1 **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

(p) 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 payments

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 within 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).

(q) 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.

1 **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

(q) Income tax (Continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from 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.

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 Company or 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 Company or 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.

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company 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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) 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 at the customers' premises which is taken to be the point in time 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.

(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 periods 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.

(t) 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 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.

(u) 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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) 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. Other development expenditure is recognised as an expense in the period in which it is incurred.

(w) Dividends

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

(x) 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.

(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.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Segment reporting

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

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

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

2 ACCOUNTING JUDGEMENT AND ESTIMATES

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

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

(a) Net realisable value of inventories

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

(b) Impairment of trade and other receivables

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

2 ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

(c) Provision for deferred tax

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

3 TURNOVER

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

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

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

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

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

4 OTHER REVENUE AND OTHER NET LOSS

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

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		2014 RMB'000	2013 RMB'000
(a)	**Finance costs:**		
	Interest on bank loans	**3,409**	4,326
(b)	**Staff costs:**		
	Contributions to defined contribution retirement plans	**1,908**	304
	Salaries, wages and other benefits	**46,509**	30,605
	Equity-settled share-based payment expenses (note 25)	**3,436**	—
		51,853	30,909
(c)	**Other items:**		
	Amortisation		
	— lease prepayments	**88**	88
	— intangible assets	**50**	14
	Depreciation	**3,172**	3,044
	Auditors' remuneration	**2,450**	1,228
	Operating lease charges in respect of properties	**1,704**	995
	Research and development expenses	**4,533**	5,828
	Cost of inventories sold#	**495,367**	401,330

Cost of inventories for the year ended 31 December 2014 includes RMB28,012,000 (2013: RMB18,977,000) relating to staff costs and depreciation, which amount is also included in the respective total amounts disclosed separately in notes 5(b) and (c) above for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

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

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

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

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

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

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

(iv) According to the PRC Corporate Income Tax Law and its implementation rules, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to withholding tax at a rate of 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. A rate of 10% is applicable to the calculation of the PRC dividend withholding tax of the Group. Deferred tax liabilities have been provided for based on the expected dividends to be distributed from the Group's PRC subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.

7 DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

Year ended 31 December 2014

	Fees	Basic salaries, allowances and other benefits	Contributions to defined contributions retirement plans	Discretionary bonuses	Sub-total	Equity-settled share-based payments (Note)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors							
Mr. Ding Peiji	100	713	12	59	884	—	884
Mr. Ding Peiyuan	100	616	7	51	774	393	1,167
Mr. Ding Lizhen	100	616	7	51	774	393	1,167
Mr. Gu Jishi	100	775	3	25	903	393	1,296
Sub-total	400	2,720	29	186	3,335	1,179	4,514
Independent non-executive directors							
Mr. Leung Wai Yip	136	—	—	—	136	—	136
Mr. Mei Wenjue	136	—	—	—	136	—	136
Mr. Zhu Wenxin	136	—	—	—	136	—	136
Sub-total	408	—	—	—	408	—	408
Total	808	2,720	29	186	3,743	1,179	4,922

7 DIRECTORS' REMUNERATION (Continued)

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	Sub-total RMB'000	Equity-settled share-based payments (Note) RMB'000	Total RMB'000
Executive directors							
Mr. Ding Peiji	4	597	10	59	670	—	670
Mr. Ding Peiyuan	4	514	3	51	572	—	572
Mr. Ding Lizhen	4	516	7	51	578	—	578
Mr. Gu Jishi	4	676	3	19	702	—	702
Sub-total	16	2,303	23	180	2,522	—	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	—	2,522

The independent non-executive directors were appointed on 16 December 2013. No remuneration was paid to the independent non-executive directors in 2013.

Note:

These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(p)(ii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and note 25.

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 8 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.

8 INDIVIDUAL WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2013: four) are directors whose remuneration is disclosed in note 7 above. The emoluments in respect of the remaining individual (2013: one) are as follows:

	2014 RMB'000	2013 RMB'000
Salaries and other emoluments	**984**	371
Discretionary bonus	**953**	—
Equity-settled share-based payments	**344**	—
Contributions to defined contribution retirement plans	**8**	—
	2,289	371

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

	2014 Number of Individual	2013 Number of individual
HK$1 to HK$1,000,000	**—**	1
HK$2,500,001 to HK$3,000,000	**1**	—

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to shareholders of the Company includes a loss of RMB15,969,000 (2013: loss of RMB8,393,000), which has been dealt with in the financial statements of the Company.

10 EARNINGS PER SHARE

(a) Basic earnings per share

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

Weighted average number of ordinary shares

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

10 EARNINGS PER SHARE (Continued)

(b) Diluted earnings per share

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

11 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery	Motor vehicles	Furniture, fixtures and equipments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:					
At 1 January 2013	50,459	7,624	4,693	3,311	66,087
Additions	—	7	—	308	315
At 31 December 2013 and 1 January 2014	50,459	7,631	4,693	3,619	66,402
Additions	—	5	2,740	321	3,066
Transfer from construction in progress	18,081	—	—	—	18,081
At 31 December 2014	68,540	7,636	7,433	3,940	87,549
Accumulated depreciation:					
At 1 January 2013	13,062	6,454	3,561	2,234	25,311
Charge for the year	2,271	109	365	299	3,044
At 31 December 2013 and 1 January 2014	15,333	6,563	3,926	2,533	28,355
Charge for the year	2,271	94	415	392	3,172
At 31 December 2014	17,604	6,657	4,341	2,925	31,527
Net book value:					
At 31 December 2014	50,936	979	3,092	1,015	56,022
At 31 December 2013	35,126	1,068	767	1,086	38,047

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

(b) Buildings with net book value of RMB8,748,000 as at 31 December 2014 (2013: RMB9,598,000) were pledged as collateral for the Group's bank loans (note 22).

(c) At 31 December 2014, the application of the ownership certificates for buildings with net book value of RMB40,249,000 were in progress (2013: RMB23,459,000). Subsequent to the year end, the Group obtained land use certificate for buildings with carrying value of RMB9,177,000.

12 DEPOSITS FOR PURCHASE OF A PROPERTY

On 13 June 2013, Red Kids (China) Co., Ltd. ("Red Kids China"), an indirect wholly owned subsidiary of the Group, entered into a pre-purchase agreement ("Pre-purchase Agreement") with Shanghai Fashitu Investment Group Limited ("Shanghai Fashitu"), an independent third party, pursuant to which Red Kids China agreed to acquire from Shanghai Fashitu a building ("Building No. 18") under the construction situated at Shangzhifang Fashion Culture Creative Park, No. 6066, Songze Avenue, Qingpu District, Shanghai (the "Shangzhifang Fashion Culture Creative Park") with a gross floor area of 10,709.6 sq.m.. Red Kids China has paid a total of RMB92,000,000 (the "Advance Payments") towards the total consideration payable under the Pre-purchase Agreement as at 31 December 2014.

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

On 18 March 2015, Red Kids China entered into another agreement with Shanghai Fashitu in respect of the acquisition of Building No. 7 at a consideration of RMB59,177,000 and prepaid RMB1,000,000 for the acquisition. The remaining consideration of RMB58,177,000 shall be satisfied by setting off against the Advance Payments, and the balance of the Advance Payments in the amount of RMB33,823,000 shall be refunded to Red Kids China in two tranches in the following manner: (i) RMB20,000,000 by 30 April 2015, and (ii) the remaining balance of RMB13,823,000 when the formal agreement for the registration of transfer of property title of Building 7 is signed.

13 CONSTRUCTION IN PROGRESS

	The Group	
	2014	2013
	RMB'000	RMB'000
At 1 January	**974**	—
Additions	**17,107**	974
Transfer to property, plant and equipment	**(18,081)**	—
At 31 December	**—**	974

14 INTANGIBLE ASSETS

	Computer Software RMB'000
Cost:	
At 1 January 2013	144
Additions	495
At 31 December 2013 and 1 January 2014	639
Additions	5
At 31 December 2014	644
Accumulated amortisation:	
At 1 January 2013	90
Charge for the year	14
At 31 December 2013 and 1 January 2014	104
Charge for the year	50
At 31 December 2014	154
Net book value:	
At 31 December 2014	490
At 31 December 2013	535

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

15 LEASE PREPAYMENTS

	RMB'000
Cost:	
At 1 January 2013, 31 December 2013 and 2014	4,206
Accumulated amortisation:	
At 1 January 2013	1,089
Charge for the year	88
At 31 December 2013 and 1 January 2014	1,177
Charge for the year	88
At 31 December 2014	1,265
Net book value:	
At 31 December 2014	2,941
At 31 December 2013	3,029

Lease prepayments with net book value of RMB1,843,000 (2013: RMB1,898,000) as at 31 December 2014 were pledged as collateral for the Group's bank loans (note 22).

16 INVESTMENT IN A SUBSIDIARY

	2014 **RMB'000**	2013 RMB'000
Unlisted shares, at cost	**—**	—
Cumulative fair value of share options granted to employees of a subsidiary	**3,436**	—
	3,436	—

16 INVESTMENT IN A SUBSIDIARY (Continued)

Particulars of the subsidiaries are set out below:

Name of company	Place of incorporation and business	Issued and paid up capital	Particulars of Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by a subsidiary	Principal activity
Obvious Cheer Investment Development Limited	BVI	1 share of USD1 each	100%	100%	—	Investment holding
Red Kids Group (Hong Kong) Limited	Hong Kong	100,000 shares	100%	—	100%	Investment holding
Red Kids (China) Co., Ltd.* 紅孩兒（中國）有限公司	PRC	HK$460,000,000	100%	—	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%	—	100%	Design, manufacture and sales 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.

17 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2014 RMB'000	2013 RMB'000
Provision for PRC corporate income tax	**16,643**	15,953

(b) Deferred tax assets and liabilities recognised:

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

	Accrued expenses and others RMB'000	**Dividend withholding tax** RMB'000	**Total** RMB'000
At 1 January 2013	2,968	—	2,968
Charged to profit or loss (note 6(a))	(863)	—	(863)
At 31 December 2013 and 1 January 2014	2,105	—	2,105
Charged/(Credited) to profit or loss (note 6(a))	738	(1,300)	(562)
At 31 December 2014	2,843	(1,300)	1,543

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

(b) Deferred tax assets and liabilities recognised: (Continued)

Reconciliation to the consolidated statements of financial position:

	2014 RMB'000	2013 RMB'000
Net deferred tax asset recognised in the consolidated statement of financial position	**2,843**	2,105
Net deferred tax liability recognised in the consolidated statement of financial position	**(1,300)**	—
	1,543	2,105

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(q), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB7,010,000 (2013: RMB2,242,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Cumulative tax losses of RMB4,791,000 (2013: RMB1,740,000) will expire within 5 years under current tax legislation.

(d) Deferred tax liabilities not recognised

Deferred tax liabilities in respect of the PRC dividend withholding tax relating to the undistributed profits of the Group's PRC subsidiaries of RMB467,571,000 (2013: RMB333,468,000) 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.

18 INVENTORIES

Inventories in the consolidated statement of financial position comprise:

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

19 TRADE AND OTHER RECEIVABLES

(a) The Group

	2014 RMB'000	2013 RMB'000
Trade receivables		
— third parties	**283,201**	230,931
— related parties	**8,542**	4,958
Trade receivables	**291,743**	235,889
Prepayments to suppliers	**40,802**	18,255
Other deposits, prepayments and receivables	**681**	3,314
	333,226	257,458

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

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

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

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

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

Impairment losses in respect of trade receivables are recorded using allowance account unless the Group is satisfied that the recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 1(j)(i)). For the years ended 31 December 2014 and 2013, the Group did not record any impairment losses in respect of trade receivables.

19 TRADE AND OTHER RECEIVABLES (Continued)

(b) The Company

	2014	2013
	RMB'000	RMB'000
Amount due from a subsidiary	**240,937**	—

The amount due from a subsidiary is unsecured, interest free, repayable on demand and is expected to be recovered after more than one year.

20 PLEDGED BANK DEPOSITS

Bank deposits of RMB2,000,000 (2013: nil) have been pledged as security for foreign exchange forward contracts (note 23(a)).

21 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	The Group	
	2014	2013
	RMB'000	RMB'000
Cash at bank and on hand	**432,384**	260,079

	The Company	
	2014	2013
	RMB'000	RMB'000
Cash at bank and on hand	**4,985**	33

At 31 December 2014, cash and cash equivalents, pledged bank deposits and fixed deposits at banks with original maturity over three months with aggregate amount of RMB476,304,000 (2013: RMB259,541,000) were placed with banks in mainland China. Remittance of funds out of mainland China is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

21 CASH AND CASH EQUIVALENTS (Continued)

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

	Note	2014 RMB'000	2013 RMB'000
Profit before taxation		**193,319**	177,181
Adjustments for:			
Depreciation	5(c)	**3,172**	3,044
Amortisation of intangible assets	5(c)	**50**	14
Amortisation of lease prepayments	5(c)	**88**	88
Equity-settled share-based payments		**3,436**	1,947
Finance costs	5(a)	**3,409**	4,326
Interest income	4	**(1,794)**	(834)
Changes in working capital:			
Increase in inventories		**(3,022)**	(10,888)
(Increase)/decrease in trade and other receivables		**(78,439)**	28,514
(Decrease)/increase in trade and other payables		**(1,430)**	9,006
Decrease in pledged bank deposits		**—**	3,880
Cash generated from operations		**118,789**	216,278

22 BANK LOANS

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

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

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

	2014 RMB'000	2013 RMB'000
Buildings held for own use (note 11)	**8,748**	9,598
Lease prepayments (note 15)	**1,843**	1,898
	10,591	11,496

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

23 TRADE AND OTHER PAYABLES

(a) The Group

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

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

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

(b) The Company

	2014 **RMB'000**	2013 RMB'000
Amount due to a subsidiary	**—**	5,591
Other payables and accruals	**749**	3,505
	749	9,096

The amount due to a subsidiary is unsecured, interest free and have no fixed terms of repayment.

(Expressed in Renminbi unless otherwise indicated)

24 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 21% 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$30,000 (HK$25,000 prior to June 2014). 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.

25 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.

(a) 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		

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

(b) The number and weighted average exercise prices of share options are as follows:

	Year end 31 December 2014		Year end 31 December 2013	
	Weighted average exercise price	**Number of options '000**	Weighted average exercise price	Number of options '000
Outstanding at the beginning of the year	**HK$1.824**	**7,000**	—	—
Granted during the year	**—**	**—**	HK$1.824	7,000
Forfeited during the year*	**HK$1.824**	**650**	—	—
Outstanding at the end of the year	**HK$1.824**	**6,350**	HK$1.824	7,000
Exercisable at the end of the year	**HK$1.824**	**—**	HK$1.824	—

* The Pre-IPO options of two employees were forfeited as they resigned in 2014.

The share options outstanding as at 31 December 2014 had an exercise price of HK$1.824 (2013: HK$1.824) and a weighted average remaining contractual life of 7 years (2013: 8 years).

(c) 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%
Contractual 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 of 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.

26 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

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 equity between the beginning and the end of the year are set out below:

	Note	Share capital	Share premium	Share-based payment reserve	Exchange reserve	Accumulated losses	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		26(c)	26(d)(i)	26(d)(iv)	26(d)(iii)		
Balance at 15 March 2013 (date of incorporation)		—	—	—	—	—	—
Loss for the year		—	—	—	—	(8,393)	(8,393)
Other comprehensive income		—	—	—	55	—	55
Total comprehensive income		—	—	—	55	(8,393)	(8,338)
Reorganisation		8	—	—	—	—	8
Equity-settled share-based transaction		—	—	1,947	—	—	1,947
Balance at 31 December 2013		8	—	1,947	55	(8,393)	(6,383)
Loss for the year		—	—	—	—	(15,969)	(15,969)
Other comprehensive income		—	—	—	1,222	—	1,222
Total comprehensive income		—	—	—	1,222	(15,969)	(14,747)
Capitalisation issue	26(c)(ii)	5,027	(5,027)	—	—	—	—
Shares issued by global offering	26(c)(iii)	1,448	310,721	—	—	—	312,169
Equity-settled share-based transaction	26(d)(iv)	—	—	3,436	—	—	3,436
Dividends declared	26(b)(i)	—	(45,858)	—	—	—	(45,858)
Balance at 31 December 2014		6,483	259,836	5,383	1,277	(24,362)	248,617

(b) Dividends

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

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

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

26 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Dividends (Continued)

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

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

(c) Share capital

(i) Authorised and issued share capital

	2014			2013		
	No. of shares	**HK$'000**	**RMB'000**	No. of shares	HK$'000	RMB'000
Authorised:						
Ordinary shares of HK$0.01 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 26(c)(ii))	**639,000,000**	**6,390**	**5,027**	—	—	—
Shares issued by global offering (note26 (c)(iii))	**184,000,000**	**1,840**	**1,448**	—	—	—
At 31 December	**824,000,000**	**8,240**	**6,483**	1,000,000	10	8

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

(ii) Capitalisation issue

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

(Expressed in Renminbi unless otherwise indicated)

26 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(c) Share capital (Continued)

(iii) Shares issued by global offering

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

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

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

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

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 25 to the financial statements.

(d) Nature and purpose of reserve

(i) 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.

(ii) 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.

26 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(d) Nature and purpose of reserve (Continued)

(iii) 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(t).

(iv) Share-based payment reserve

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

(v) Capital reserve

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, 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 year.

(e) Distributable reserve

The distributable reserve of the Company as at 31 December 2014 was RMB242,134,000 (2013: nil).

(f) 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 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 2014 was 4% (2013: 21%).

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

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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 19.

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 2014 (2013: 22%) were due from the Group's largest customer, and 56% (2013: 52%) of the total trade receivables were due from the Group's five largest customers respectively.

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.

(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.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk (Continued)

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 2014	38,704	37,700
At 31 December 2013	78,988	76,890

(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:

	2014		2013	
	Effective interest rate	**Amount RMB'000**	Effective interest rate	Amount RMB'000
Fixed rate borrowings:				
Bank loans	**6.996%**	**37,700**	6.677%	76,890

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

(d) Currency risk

Except for 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.

At 31 December 2014, the Group had a foreign exchange forward contract selling HK$50,000,000 with a fair value of RMB593,000, recognised as derivative financial instruments.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(e) Fair values

(i) Fair value hierarchy of foreign exchange forward contract

The fair value of foreign exchange forward contract was measured using Level 2 inputs as defined in IFRS13, *Fair value measurement*, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

The fair value of forward exchange contracts in Level 2 is determined by discounting the contractual forward price and deducting the current spot rate.

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2014 and 2013.

28 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2014 not provided for in the financial statement were as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
Contracted for	**24,469**	67,276

(b) At 31 December 2014, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
Within 1 year	**1,065**	771
After 1 year but within 5 years	**208**	741
	1,273	1,512

	The Company	
	2014	2013
	RMB'000	RMB'000
Within 1 year	**102**	—

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.

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
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
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	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.

(a) Material 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 the year ended 31 December 2014 and 2013.

(i) Sales of products

Minghao Xiamen is a distributor of the Group. Sales of products to Minghao Xiamen during the year ended 31 December 2014 amounted to RMB22,931,000 (2013: RMB20,355,000). At 31 December 2014, the trade receivable from Minghao Xiamen was RMB8,542,000 (2013: RMB4,958,000).

The transactions 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 Connection Transaction" of the reports of the directors.

(ii) Waiver of amount due to a related party

The amount due to Think Wise of RMB144,855,000 as at 31 December 2013 was fully waived in January 2014 as set out in note 26(d)(v).

(iii) Guarantee provided by a related party

Secured bank loans of RMB9,700,000 as at 31 December 2014 (2013: nil) were guaranteed by Mr. Ding Peiji (note 22).

(b) Key management personnel compensation

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and the highest paid employees as disclosed in note 8, is as follows:

	2014 RMB'000	2013 RMB'000
Short-term employee benefits	**6,224**	3,521
Contributions to retirement benefit scheme	**40**	33
Equity-settled share-based payments	**2,125**	—
	8,389	3,554

Total remuneration is included in "staff costs" (note 5(b)).

(Expressed in Renminbi unless otherwise indicated)

30 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

As at 31 December 2014, the directors consider the immediate and ultimate controlling parties to be Think Wise Holdings Investment Limited and Mr. Ding Peiji respectively.

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2014

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2014 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Annual improvements to IFRSs 2010–2012 cycle	1 July 2014
Annual improvements to IFRSs 2011–2013 cycle	1 July 2014
Amendments to IAS 16 and IAS 38, Clarification of acceptable methods of depreciation and amortisation	1 January 2016
IFRS 15, Revenue from contracts with customers	1 January 2017
IFRS 9, Financial instruments	1 January 2018

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.

Five Years Financial Summary

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

	2014	2013	2012	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**795,699**	661,416	519,987	392,369	326,974
Gross Profit	**300,332**	260,086	195,814	143,909	131,420
Profit from operations	**196,728**	181,507	133,258	90,061	88,694
Profit before taxation	**193,319**	177,181	130,781	87,882	86,817
Profit for the year	**137,914**	129,613	115,438	77,323	75,945
Non-current assets	**157,596**	96,440	46,915	48,929	54,044
Current assets	**862,073**	556,298	323,948	232,292	218,895
Current liabilities	**93,208**	281,416	134,619	160,408	232,244
Net current assets/(liabilities)	**768,865**	274,882	189,329	71,884	(13,349)
Net assets	**925,161**	371,322	236,244	120,813	40,695
Gross profit margin	**37.7%**	39.3%	37.7%	36.7%	40.2%
Operating profit margin	**24.7%**	27.4%	25.6%	22.4%	27.1%
Net profit margin	**17.3%**	19.6%	22.2%	19.7%	23.2%
Current ratio	**9.2 times**	2.0 times	2.4 times	1.4 times	0.9 times
Gearing ratio	**4.1%**	20.7%	16.4%	18.5%	104.4%
Inventory turnover day	**30 days**	30 days	62 days	112 days	105 days
Trade receivables turnover day	**121 days**	121 days	111 days	77 days	30 days
Trade and bills payables turnover day	**12 days**	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.