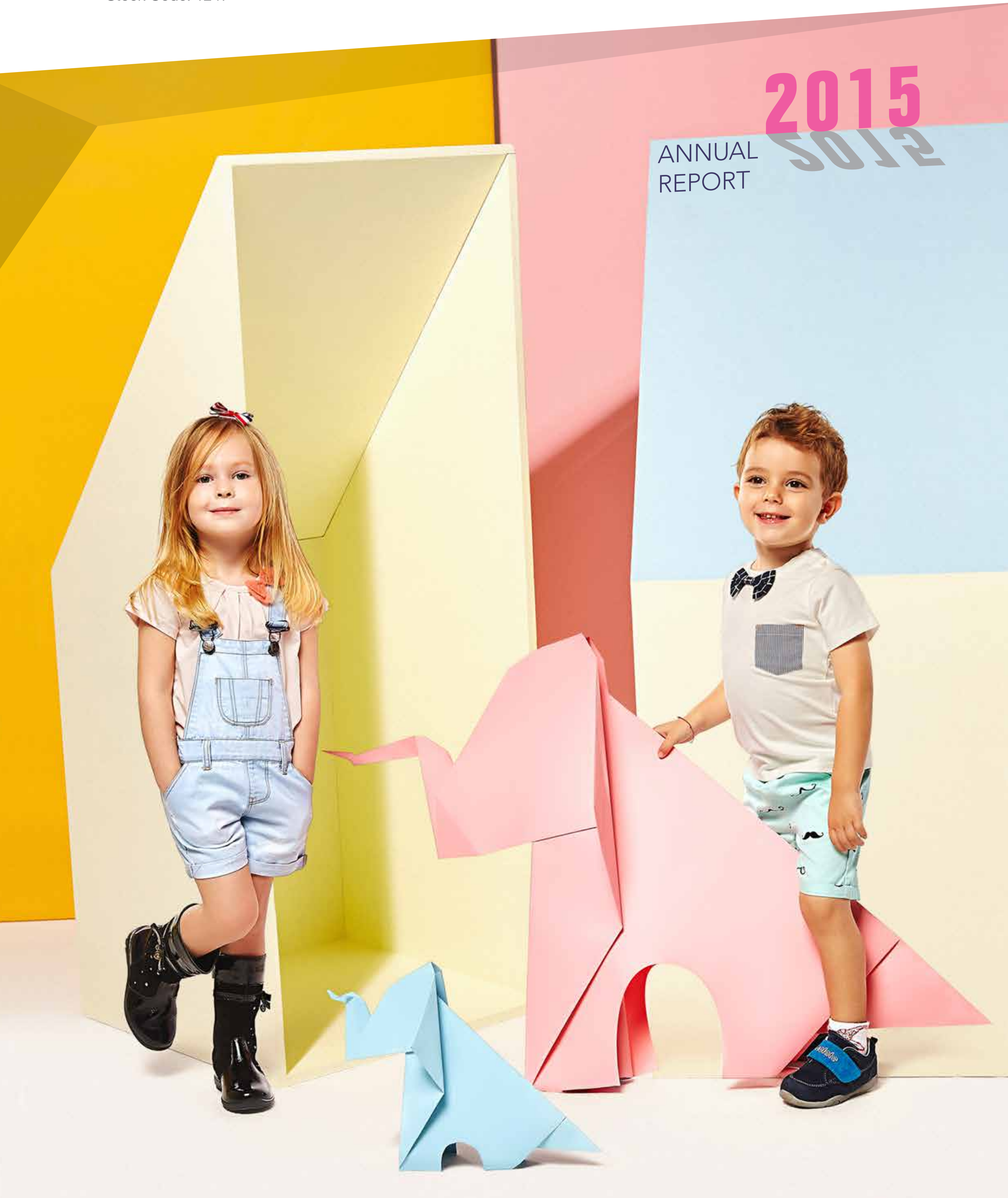
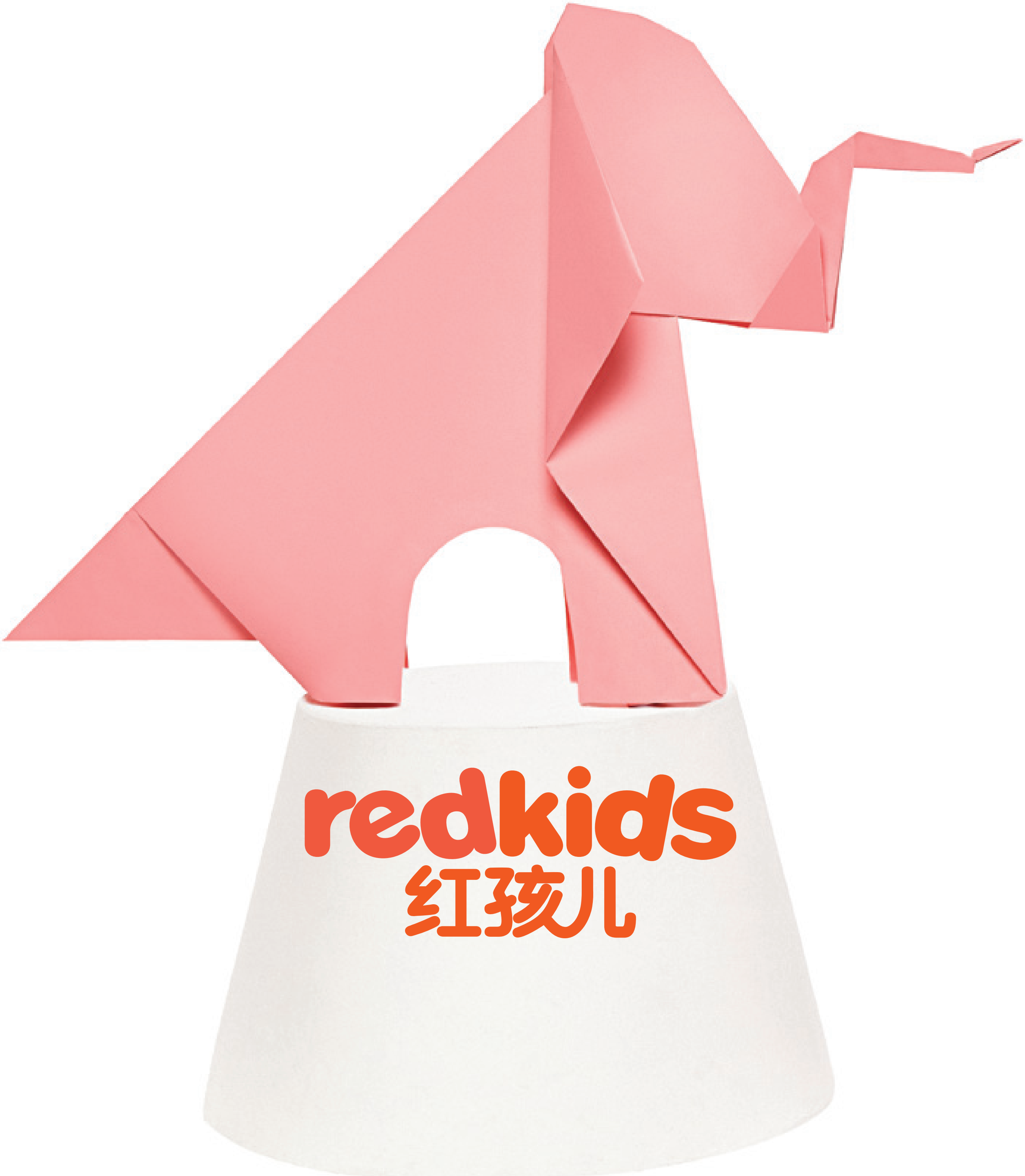
MIKO INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1247

2015
ANNUAL
REPORT




redkids
红孩儿

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Ding Peiji
Mr. Ding Peiyuan
Ms. Ding Lizhen
Mr. Gu Jishi (resigned on 30 June 2016)

Independent non-executive directors

Mr. Hung Cho Sing (appointed on 14 April 2016)
Mr. Zhu Wenxin
Ms. Lo Wing Yan, Emmy (appointed on 14 April 2016)
Mr. Mei Wenjue (resigned on 24 March 2016)
Mr. Leung Wai Yip (resigned on 19 February 2016)
Mr. Wong Heng Choon (appointed on 19 February 2016 and resigned on 15 March 2016)

Audit committee

Ms. Lo Wing Yan, Emmy *(Chairman)*
Mr. Zhu Wenxin
Mr. Hung Cho Sing

Remuneration committee

Mr. Hung Cho Sing *(Chairman)*
Mr. Zhu Wenxin
Mr. Ding Peiyuan

Nomination committee

Mr. Zhu Wenxin *(Chairman)*
Ms. Lo Wing Yan, Emmy
Ms. Ding Lizhen

AUTHORISED REPRESENTATIVES

Mr. Ding Peiji
Mr. Pang Wing Hong

JOINT COMPANY SECRETARIES

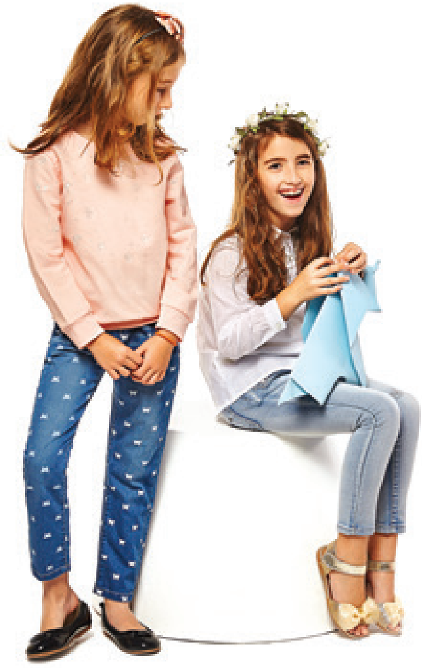
Mr. Pang Wing Hong
Ms. Lu Yanping

REGISTERED OFFICE

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

HEADQUARTERS AND PLACE OF BUSINESS IN THE PRC

No. 168, Chong Rong Street
Economic Technology Development Zone
Quanzhou City
Fujian Province 362000
PRC



PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

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

AUDITORS

HLB Hodgson Impey Cheng Limited
(appointed on 29 April 2016)
KPMG (resigned on 21 April 2016)

LEGAL ADVISERS AS TO HONG KONG LAW

Orrick, Herrington & Sutcliffe
Stevenson Wong & Co

COMPLIANCE ADVISER

RHB Capital Hong Kong Limited

INVESTOR RELATIONS CONTACT

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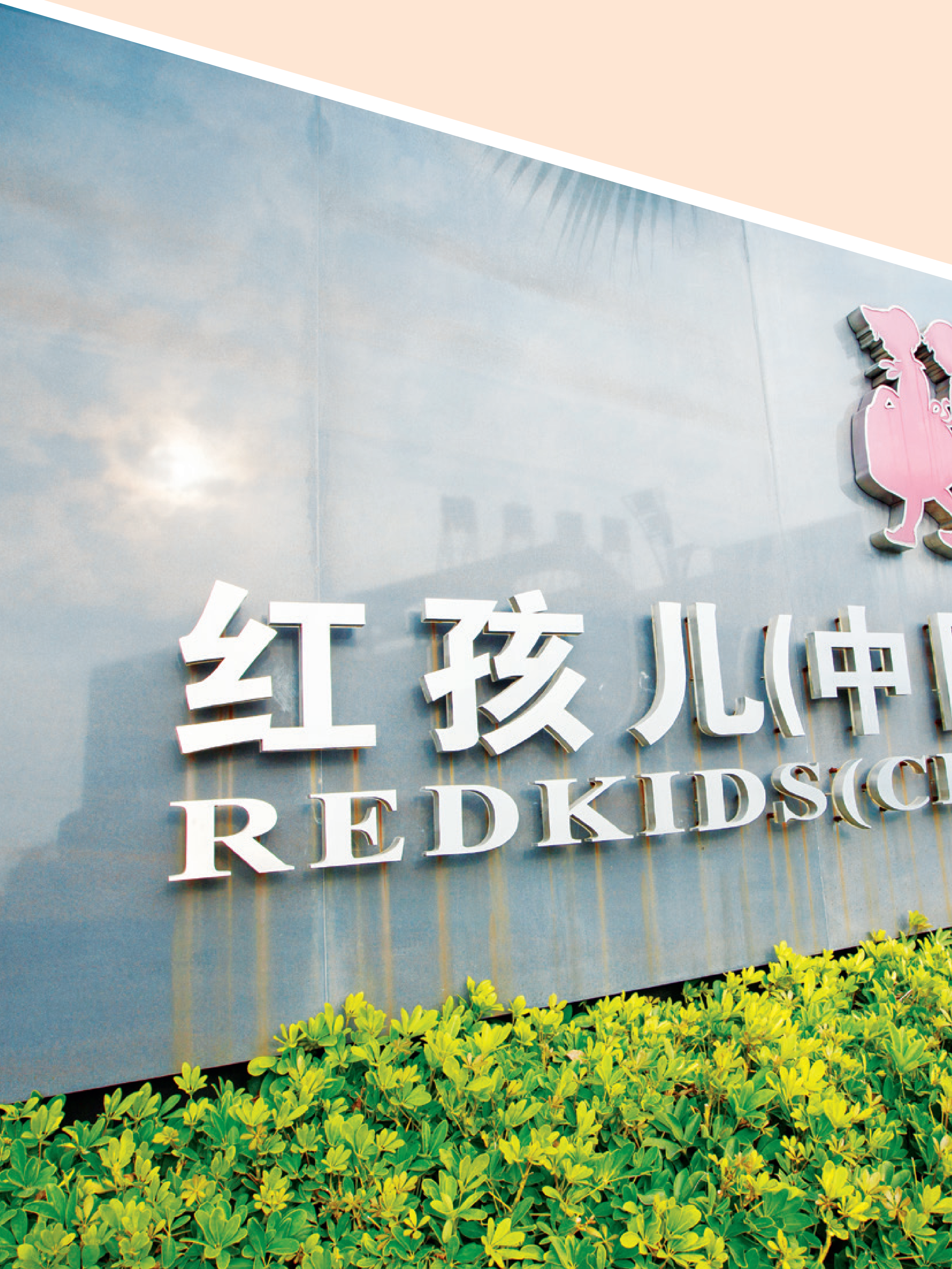
Fax: (86) 595 2469 7177
Email: ir@redkids.com

WEBSITE

www.redkids.com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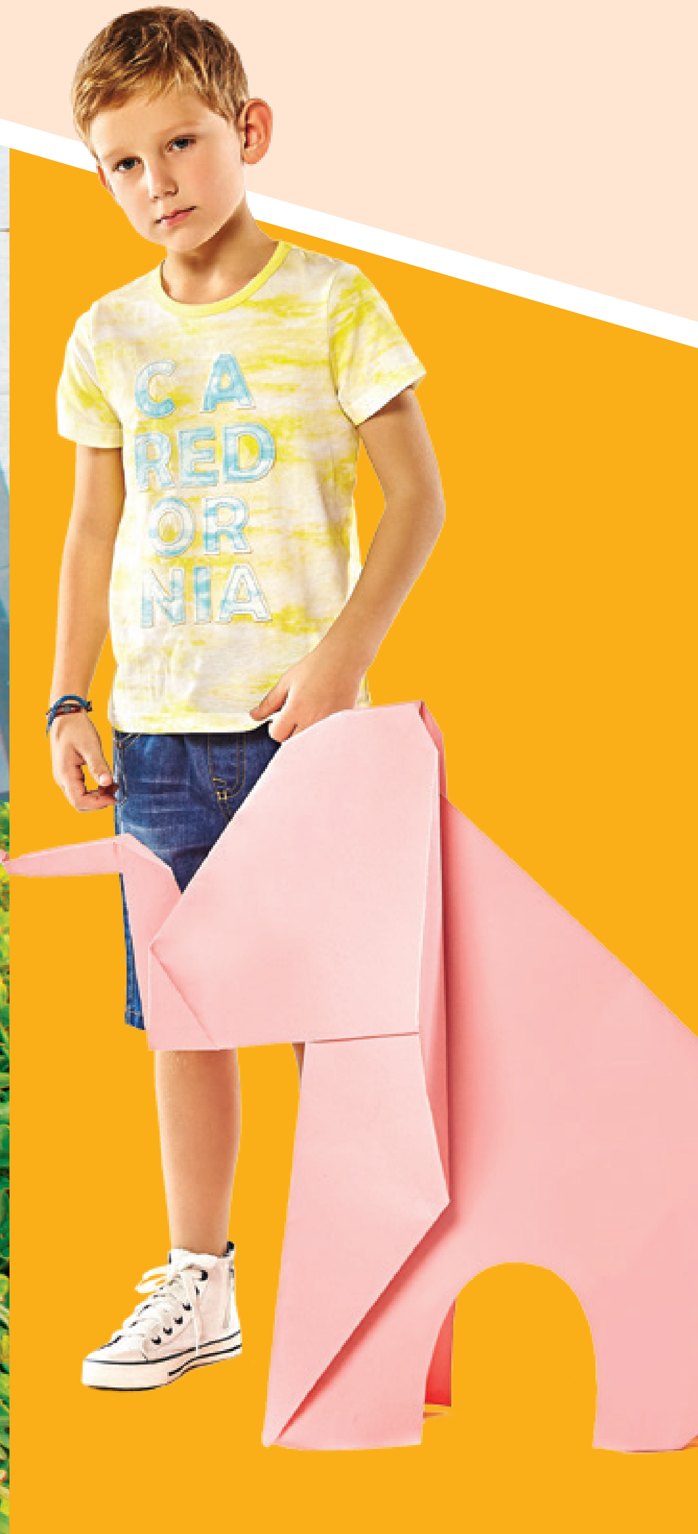
CHAIRMAN'S STATEMENT



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 2015.

For FY2015, our turnover decreased by approximately 26.4% from approximately RMB795.7 million for the year ended 31 December 2014 ("FY2014") to approximately RMB585.7 million. Our total sales volume was 10.5 million units in 2015, representing a decrease of approximately 16.7% from 12.6 million units in 2014.

In 2015, net profit of our Group amounted to approximately RMB30.3 million (2014: approximately RMB137.9 million).

After years of fast expansion, the children's apparel industry shows the tendency of phased adjustment subject to a marked slowdown in the economic growth in China. Furthermore, with international fast fashion brands entering into the market, fierce competition and decline in single store profits caused by extending men's and women's apparel brands to the children's apparel market in mainland China, certain industries including the apparel industry are under ongoing downward pressure, despite good news such as the two-child policy released in the country. In light of this, the children's apparel industry in China is expected to undergo a further adjustment over a period of time.

In the long run, we believe that a rise in China's middle-class consumption, successive development of e-commerce and the emergence of new convenient distribution channels will continue to drive overall economic growth. China's consumer demand for children's apparel remains strong. However, consumers demand has become more mature and personalised, with higher expectations for value, quality and

functionality. It is inevitable for the children's apparel industry as well as the children's products market to change significantly in a competitive environment. We are in a good position to leverage on any market opportunities and take on what comes next.

In terms of products, we always put emphasis on product innovation and differentiation. At the beginning of 2015, we introduced a Spanish design institution of children's apparel to assist us in continuously improving and enhancing our product research and development. In addition, the newly launched product line for children of 80–110cm recorded a good market performance during the year.

We have positioned our brand at medium and high-end so as to cater for demands from a wide range of consumers. In respect of distribution channels, we consistently adhere to a diversified channel strategy, giving consumers maximum access to our products, which further increases our sales results and consolidates our competitive advantage in regional markets. In view of intensive competition across the children's apparel industry, especially in distribution channels and prices, we have also carried out channel integration programmatically. Specifically, we closed stores which were underperforming, fostered and strengthened retailers' sense of market competition, and encouraged them to focus more on developing markets intensively.

We always adhere to the retail-oriented business strategy. In order to enhance our capability of sustainable profit making, we rely on our management's efficient execution to secure our competitive advantage. In the second half of 2015, we shifted several distribution channels (including Quanzhou) to self-operated model, allowing us to reach our end customers directly. In this way, we can get a clearer and more intuitive understanding about the market demand, while the profitability of our stores will be effectively enhanced.

Moreover, we keep optimising our store design and display to enable a better shopping experience for customers. Public consumption patterns are changing in the era of internet. We will also assist our e-commerce dealers with innovative cooperation methods, to create business opportunities across different sectors.

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

	As at 31 December			
	2015			2014
	Operated by distributors	Self-operated	Total	Operated by distributors
Shopping mall outlets and concessions	**238**	**23**	**261**	282
Street shops	**288**	**15**	**303**	344
	526	**38**	**564**	626

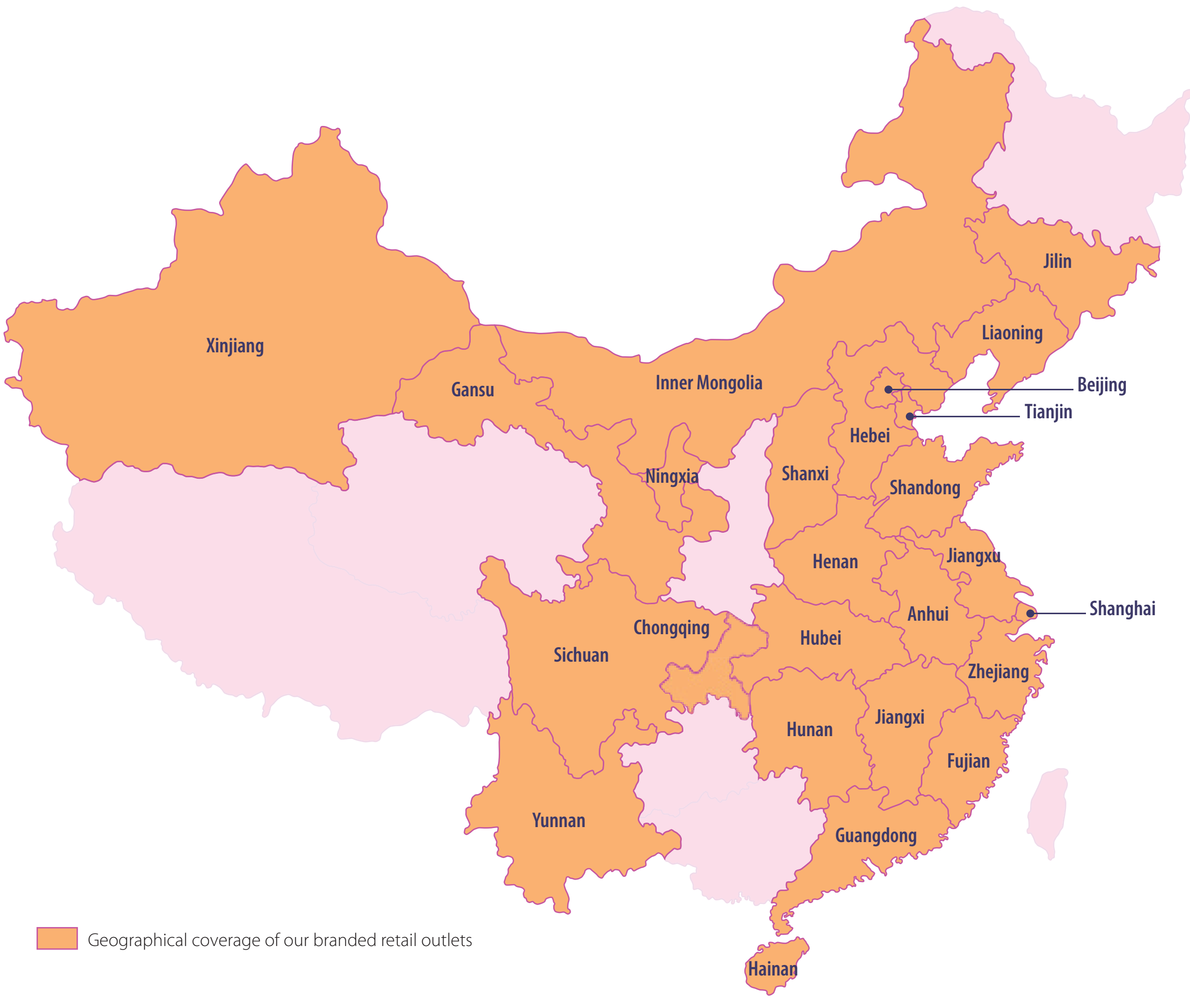
	As at 31 December			
	2015			2014
	Operated by distributors	Self-operated	Total	Operated by distributors
First-tier cities Note1	**31**	**—**	**31**	84
Second-tier cities Note 2	**80**	**4**	**84**	72
Third-tier cities Note 3	**224**	**25**	**249**	69
Fourth-tier cities Note 4	**191**	**9**	**200**	401
	526	**38**	**564**	626

Notes:

1. First-tier cities: Beijing, Shanghai, Guangzhou and Shenzhen
2. 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
3. Third-tier cities: Prefecture-level cities in the PRC, excluding any first- and second-tier cities
4. Fourth-tier cities: County-level and other townships-level cities

Looking ahead, we aim to achieve multi-brand operations by ways of co-branding and acquisitions to meet the incremental consumer demand in the future. We are going to prudently promote our innovation plan in a systematical and phased manner, devoting ourselves to further expand our retailing network and enhancing single store profitability.

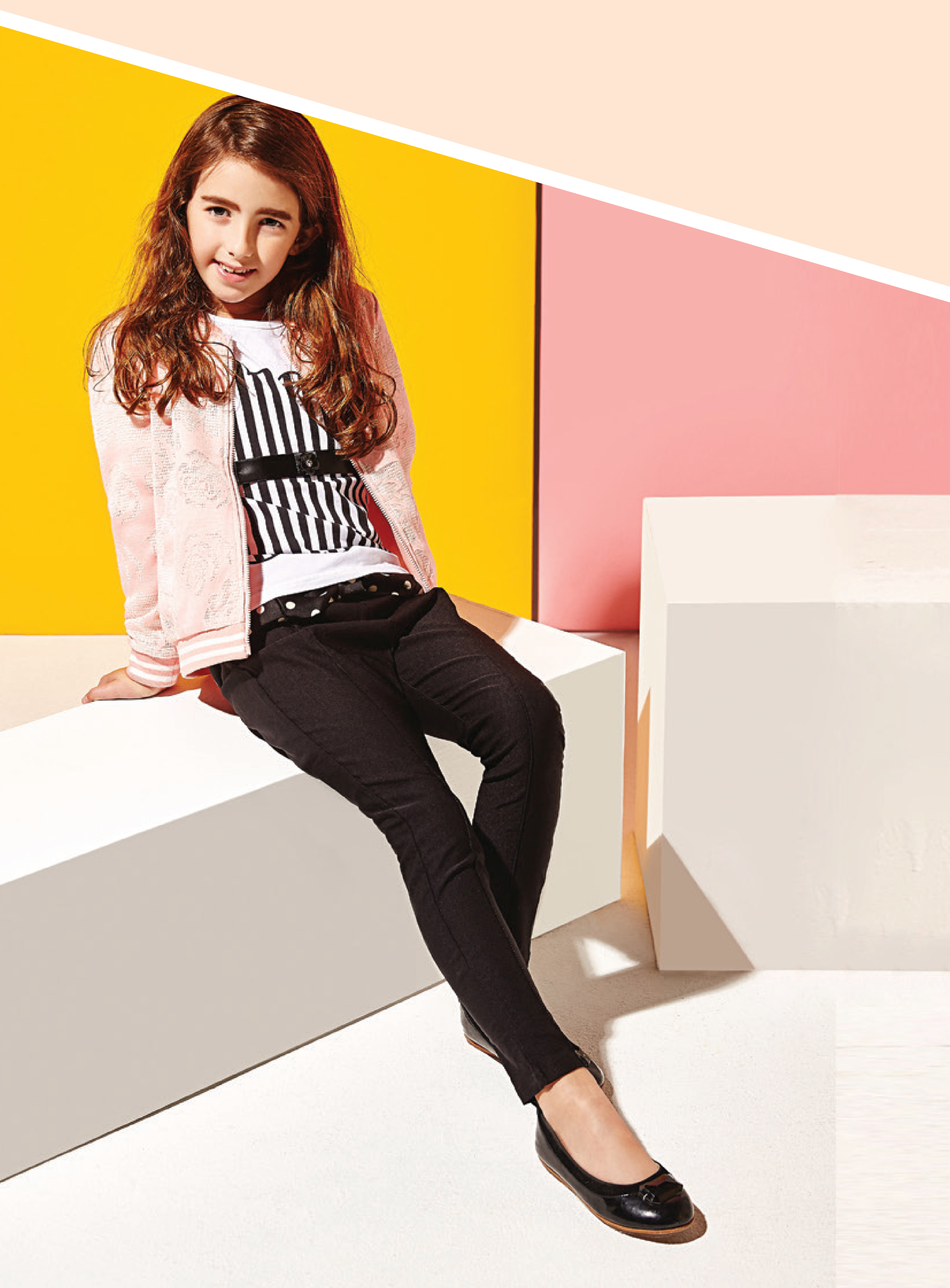
The following chart illustrates our Group's distribution map at the date of this annual report.



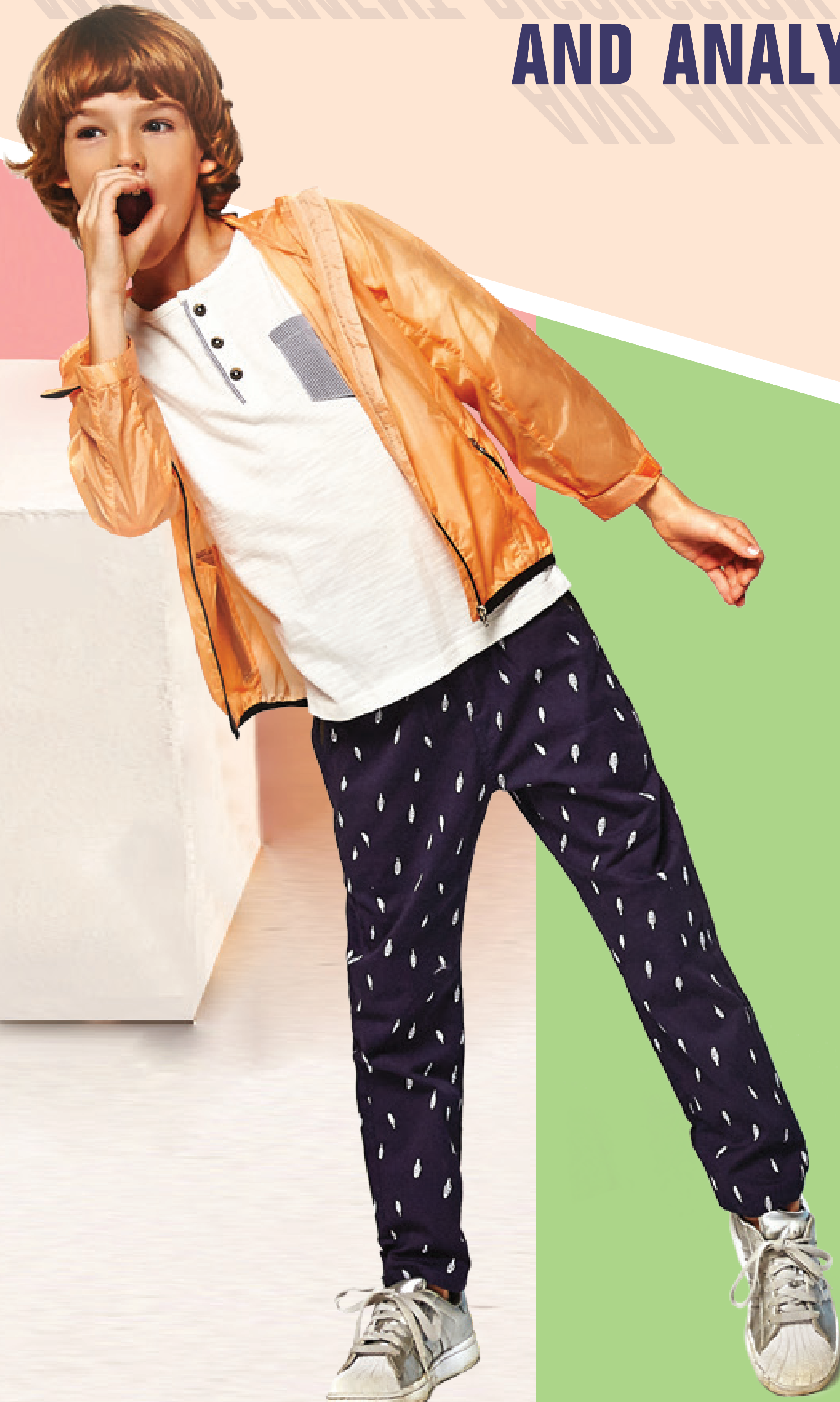
At last, on behalf of the Board, I would like to thank the shareholders of our Company (the "Shareholders") for their continuous support and all our dedicated staff for their hard work. We will, as always, hold on to the orientation of brand retail and form a value community with our distributors and suppliers in order to maintain a sustainable and stable development momentum and create higher value for our Shareholders.

Ding Peiji
Chairman of the Board

29 July 2016



MANAGEMENT DISCUSSION AND ANALYSIS



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

Our Group's products are primarily marketed through wholesaling to distributors who operate "redkids" branded retail stores in various provinces and municipalities in China. As at 31 December 2015, there were 526 "redkids" branded retail stores operated by our distributors and 38 self-operated stores in China.

In order to further diversify and expand our product portfolios, and to increase our coverage of the children's apparel market in China, our Group had launched two new product lines, Footwear and Accessories, such as backpacks and socks, in addition to the existing children and infant apparel during the year of 2015.

The retail industry in China experienced a declining retail climate and uncertainty of consumer sentiment during the year of 2015. Our Group's revenue was unavoidably affected by these unfavourable market conditions despite a progressive relaxation of the one-child policy. Coupled with a temporary slow-down of orders received from our distributors due to our Group's enhancement and innovation plan implemented in early 2015 for the "redkids" branded retail stores, our Group's revenue recorded a decrease of about 26.4%, from approximately RMB795.7 million for FY2014 to approximately RMB585.7 million for FY2015.

Sales to distributors continued to account for the majority of our Group's revenue during FY2015. Sales to distributors was approximately RMB482.8 million for FY2015, representing approximately 82.4% of our Group's revenue, as compared to that of approximately RMB632.7 million or 79.5% for FY2014.

On the other hand, our Group stands to benefit from the change in the lifestyle and shopping habits of consumers in the era of internet, and continues to capture the tremendous demand of children's apparel from online shopping. Sales to our designated online distributor, who resells our products through different online sales platforms in China, was approximately RMB100.5 million for FY2015, representing approximately 17.2% of our Group's revenue and a decrease of approximately 38.0% as compared to that of approximately RMB162.1 million for FY2014.

For the apparel products segment, sales volume was approximately 10.5 million units for FY2015, representing a decrease of approximately 16.7% as compared to that of approximately 12.6 million units for FY2014. The average wholesale selling price for FY2015 recorded a decrease as compared to that for FY2014, partially reflecting our change in product mix in FY2015.

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

	FY2015	FY2014	**% change**
Sales volume (million units)	**10.5**	12.6	–16.7
Average wholesale price (RMB)	**56**	63	–11.1

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

	FY2015		FY2014		**% change**
	RMB'000	**%**	RMB'000	%	
Apparel	**563,995**	**96.3**	795,278	99.9	–29.1
Footwear and Accessories	**20,947**	**3.6**	—	—	—
OEM services	**756**	**0.1**	421	0.1	+79.6
	585,698	**100.0**	795,699	100.0	–26.4

We primarily market our products through the extensive retail network with over 500 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 online distributor who resells our products through different online sales platforms in China.

During FY2015, our designated online distributor was the single largest customer which accounted for approximately 17.2% (FY2014: 20.4%) of our total revenue. Sales to our top five customers, which comprised the designated on-line distributor and four other distributors, in aggregate accounted for approximately 51.3% (FY2014: 52.8%) of our total revenue.

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

	FY2015		FY2014		% change
	RMB'000	%	RMB'000	%	
Sales to distributors	**482,750**	**82.4**	632,723	79.5	–28.4
Sales to on-line distributor	**100,489**	**17.2**	162,078	20.4	–38.0
Sales from self-operated stores	**1,703**	**0.3**	477	0.05	+257.0
OEM services	**756**	**0.1**	421	0.05	+79.6
	585,698	**100.0**	795,699	100.0	–26.4

Cost of Sales

Our cost of sales decreased by approximately RMB122.1 million or approximately 24.7%, from RMB495.4 million for FY2014 to approximately RMB373.3 million for FY2015. The decrease was generally in line with the decrease in turnover. During FY2015, 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 71.9% for FY2015 as compared to that of approximately 71.1% for FY2014.

Gross Profit and Gross Profit Margin

Our gross profit decreased by approximately RMB87.9 million or approximately 29.3%, from approximately RMB300.3 million for FY2014 to RMB212.4 million for FY2015. Gross profit margin decreased by 3.7%, from 37.7% for FY2014 to 36.3% for FY2015, mainly as a result of the intense competition in children apparel industry in China.

Other Revenue and Other Net Gain/Loss

Other revenue primarily consisted of interest income from bank deposits of approximately RMB3.6 million (FY2014: approximately RMB1.8 million) and government grants of approximately RMB3.3 million in relation to our Group's successful listing on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and approximately RMB0.5 million in relation to tax incentive (FY2014: approximately RMB0.8 million).

Other net loss represented the net foreign exchange gain of approximately RMB0.5 million (FY2014: net loss of approximately RMB1.0 million) and the gain on change in fair value of a foreign exchange forward contract of approximately RMB0.6 million (FY2014: loss on change in fair value approximately RMB0.6 million).

Impairment loss recognised on property, plant and equipment

During the year ended 31 December 2015, due to the original schedule for construction of a property as the Group's research and development centre has been left behind, the directors of the Company has negotiated with the seller to acquire a nearby property instead. The acquisition of self-owned property was finally completed during the year. Its net carrying amount as at 31 December 2015 was approximately RMB42.3 million, as its recoverable amount was calculated to be lower than its carrying amount and accordingly, an impairment of approximately RMB15.8 million were recognised for the year.

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 59.5%, from approximately RMB57.9 million for FY2014 to approximately RMB92.4 million for FY2015. The increase was resulted from increase in advertisement and marketing expenses.

As a percentage of turnover, selling and distribution expenses were 7.5% and 15.8% for FY2014 and FY2015 respectively.

Administrative and Other Operating Expenses

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

Administrative and other operating expenses were approximately RMB37.9 million for FY2015, representing a reduction of approximately RMB9.0 million or approximately 19.2% as compared to approximately RMB47.0 million for FY2014. The reduction in administrative and other operating expenses mainly reflected the decrease in staff cost and other operating expenses for our Group.

As a percentage of turnover, administrative and other operating expenses also increased from 5.9% for FY2014 to 6.5% for FY2015.

Finance Costs

As a result of the decrease in short-term bank borrowings, finance costs decreased by approximately RMB0.3 million, from approximately RMB3.4 million for FY2014 to approximately RMB3.1 million for FY2015.

Income Tax Expenses

Income tax expenses decreased from approximately RMB55.4 million for FY2014 to approximately RMB41.6 million for FY2015. The effective tax rate was 57.8% for FY2015, which was comparable to 28.7% for FY2014. 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 decreased from approximately RMB137.9 million for FY2014 to approximately RMB30.3 million for FY2015. Net profit margin recorded a decrease by approximately 12.1%, from 17.3% for FY2014 to 5.2% for FY2015.

Working Capital Management

We possess sufficient cash to meet liquidity requirements and for strategic alliances and acquisitions, if any. As of 31 December 2015, our cash and cash equivalents, and bank deposits totaled approximately RMB501.3 million (31 December 2014: approximately RMB487.1 million), representing more than half of the total amount of our current assets.

Current ratio and quick ratio were 7.5 times and 7.1 times, respectively, as at 31 December 2015, as compared to 9.2 times and 8.8 times, respectively, as at 31 December 2014.

Inventories

Our inventories increased by approximately RMB1.4 million, from approximately RMB41.8 million as of 31 December 2014 to approximately RMB43.2 million as at 31 December 2015. Inventories mainly comprised raw materials of approximately RMB2.9 million (31 December 2014: approximately RMB5.7

million), work in progress of approximately RMB2.7 million (31 December 2014: approximately RMB5.0 million) and finished goods of approximately RMB37.6 million (31 December 2014: approximately RMB31.1 million). The inventory turnover was 42 days for FY2015 (FY2014: 30 days).

Trade Receivables

Trade receivables decreased by approximately RMB40.6 million, from approximately RMB291.7 million as of 31 December 2014 to approximately RMB251.1 million as of 31 December 2015.

Trade receivables turnover was 169 days for FY2015, (FY2014: 121 days). As of 31 December 2015, 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 decreased from approximately RMB16.7 million as of 31 December 2014 to approximately RMB4.6 million as of 31 December 2015. Trade payables turnover was 10 days for FY2015 (FY2014: 12 days).

LIQUIDITY AND CAPITAL RESOURCES

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

The following table sets forth our cash flows for FY2015 and FY2014:

	FY2015 RMB'000	FY2014 RMB'000
Net cash generated from operating activities	**89,468**	64,636
Net cash used in investing activities	**(86,552)**	(116,614)
Net cash generated from financing activities	**11,612**	224,202
Net increase in cash and cash equivalents	**14,528**	172,224
Cash and cash equivalents at 1 January	**432,384**	260,079
Effect of foreign exchange rate changes	**(668)**	81
Cash and cash equivalents at 31 December	**446,244**	432,384

We were in net cash position as of 31 December 2015, and our gearing ratio was 6.1% as of 31 December 2015 (31 December 2014: 4.1%). As at 31 December 2015, the Group had cash & cash equivalent of approximately RMB446.2 million. The increase was mainly due to increase in cash generated from financing activities. As at 31 December 2015, the Group had interest bearing borrowings of approximately RMB57.7 million with a repayable on demand clause. Such borrowings was denominated in RMB and HKD, carried at fixed interest 5.3% to 6.7% and variable interest at 1.4% respectively.

Notes to financial ratios

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

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

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

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

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

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

FINANCIAL RISK MANAGEMENT

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

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

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

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 2015, capital expenditure contracted but not provided for was approximately RMB19.6 million (31 December 2014: approximately RMB24.5 million).

CONTINGENT LIABILITIES

Our Group did not have any significant contingent liabilities as of 31 December 2015 and 2014.

PLEDGE OF ASSETS

As of 31 December 2015, pledged bank deposits, certain properties and lease prepayments totalled approximately RMB14.8 million (31 December 2014: approximately RMB10.6 million) were pledged for certain bank loans.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Our Group had entered into an acquisition agreement with one of its distributors to acquire 51 distribution channels on 23 June 2015. Up to the date of this annual report, the acquisition of distribution channels had been completed and transferred to our Group.

Saved as disclosed above, our Group made no other significant investments, material acquisitions or disposal during the year ended 31 December 2015.

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 2015, our Group had utilised the Net Proceeds as set out below:

	Percentage to the net proceeds (Note 2)	**Net proceeds** RMB' million	**Utilised amount** RMB' million	**Unutilised amount** (Note 3) RMB' million
Establish self-operated retail stores (Note 1)	21.2%	60.5	42.7	17.8
Enhance design and research and development capabilities in our design center in Shanghai	26.9%	76.7	0.1	76.6
Recruit at least 30 additional design and research and development staff	4.2%	12.0	1.1	10.9
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	9.7	48.2
Marketing and promotional activities	15.9%	45.2	22.2	23.0
Working capital and general corporate purposes	5.0%	14.2	14.2	—
	100.0%	285.0	90.0	195.0

Notes:

(1) Our Group had entered into an acquisition agreement with one of its distributors to acquire 51 distribution channels on 23 June 2015. Up to the date of this annual report, the acquisition of distribution channels had been transferred to our Group. Please refer to note 14, 16 and 17 to the financial statements in this annual report for details.

(2) There had been a change in the use of a portion of the Net Proceeds originally allocated for establishing not more than 50 self-operated retail stores by the end of 2014 to marketing and promotional activities. For further details, please refer to the separate announcement of the Company dated 18 March 2015.

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

EMPLOYEES AND REMUNERATION POLICIES

The emolument policy of our 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. The emolument of the Directors are decided by the Remuneration Committee, having regard to business requirements and industry practice. As at 31 December 2015, we employed around 700 full-time employees. The total staff costs for FY2015 was approximately RMB45.8 million (FY2014: approximately RMB51.9 million).

SUBSEQUENT EVENTS

As disclosed in the announcement dated 31 March 2016, as a result of the delay in the finalisation of the 2015 Annual Results, the trading in the shares of the Company on the Stock Exchange has been suspended with effect from 1 April 2016 pending releasing of the announcement of 2015 Annual Results. On 1 August 2016, trading of shares of the Company was resumed upon fulfillment of certain resumption conditions as imposed by the Stock Exchange on 11 July 2016.

As disclosed in the announcement dated 22 April 2016, KPMG has resigned as auditors of the Group with effect from 21 April 2016. As disclosed in the announcement dated 29 April 2016, HLB Hodgson Impey Cheng Limited ("HLB") was appointed as the new auditors of the Company to fill the vacancy left by the resignation of KPMG and to hold office until the conclusion of the next annual general meeting of the Company.

On 30 June 2016, the acquisition of the remaining 26 distributions channels from Quanzhou City Rui Hong Apparel Trading Co., Ltd. was took place. All applicable conditions precedent of the acquisition agreement have been satisfied. The directors of the Group are still assessing the impact of the acquisition to the Group up to the date of this annual report.

CORPORATE GOVERNANCE REPORT

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. During FY2015, the Board comprised four executive Directors and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code ("CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). During FY2015, the Company has complied with the CG Code, except for the deviation as explained below.

Code provision A.2.1 provides that the roles of Chairman and Chief executive should be separate and should not be performed by the same individual. As Mr. Ding Peiji ("Mr. Ding") is both the chief executive officer and the chairman of the Board of the Company, the Company is in deviation from code provision A.2.1. We consider that vesting the roles of both chairman and chief executive officer in Mr. Ding has the benefit of ensuring consistent leadership within our Group and enabling more effective and efficient overall strategic planning for our Group. The Board believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by current Board composition and structure taking into account the background and experience of our Directors.

Code provision A.6.7 provides that non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Leung Wai Yip, Mr. Mei Wenjue and Mr. Zhu Wenxin, the independent non-executive Directors during FY2015, did not attend the annual general meeting of the Company held on 21 May 2015 due to other business commitments.

Code provision C.1.2 provides that management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the issuer's performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules. During FY2015, the management of the Company had not provided regular monthly updates to the members of the Board. The management had provided information and updates to the members of the Board as and when appropriate.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The 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 regarding Directors' securities transactions. Specific enquiries have been made to all Directors and all Directors have confirmed that they have fully complied with the required standard of dealings as set out in the Model Code during FY2015.

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 three executive Directors, namely Mr. Ding Peiji, Mr. Ding Peiyuan and Ms. Ding Lizhen, and three independent non-executive Directors, namely, Mr. Hung Cho Sing, Mr. Zhu Wenxin, and Ms. Lo Wing Yan, Emmy.

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 31 to 33 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 2015. 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	2/4
Ms. Ding Lizhen	1/1	4/4
Mr. Hung Cho Sing (appointed on 14 April 2016)	N/A	N/A
Mr. Zhu Wenxin	0/1	2/4
Ms. Lo Wing Yan, Emmy (appointed on 14 April 2016)	N/A	N/A
Mr. Leung Wai Yip (resigned on 19 February 2016)	0/1	3/4
Mr. Wong Heng Choon (appointed on 19 February 2016 and resigned on 15 March 2016)	N/A	N/A
Mr. Mei Wenjue (resigned on 24 March 2016)	0/1	4/4
Mr. Gu Jishi (resigned on 30 June 2016)	0/1	4/4

N/A: Not applicable

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 (resigned on 30 June 2016)	A
Independent Non-executive Directors	
Mr. Mei Wenjue (resigned on 24 March 2016)	A
Mr. Leung Wai Yip (resigned on 19 February 2016)	A
Mr. Zhu Wenxin	A
Mr. Wong Heng Choon (appointed on 19 February 2016 and resigned on 15 March 2016)	N/A
Mr. Hung Cho Sing (appointed on 14 April 2016)	N/A
Ms. Lo Wing Yan, Emmy (appointed on 14 April 2016)	N/A

Notes:

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

N/A: Not applicable

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/her 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. Hung Cho Sing, Mr. Zhu Wenxin and Ms. Lo Wing Yan, Emmy, 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 five meetings during the year ended 31 December 2015. Major tasks completed by the Audit Committee during the year includes:

- reviewing the annual audit plan submitted by the external auditors 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 42 to 43 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 (resigned on 19 February 2016)	3/3
Mr. Mei Wenjue (resigned on 24 March 2016)	3/3
Mr. Zhu Wenxin	3/3
Ms. Lo Wing Yan, Emmy (appointed on 14 April 2016)	N/A
Mr. Hung Cho Sing (appointed on 14 April 2016)	N/A
Mr. Wong Heng Choon (appointed on 19 February 2016 and resigned on 15 March 2016)	N/A

N/A: Not applicable

(ii) Remuneration Committee

The Remuneration Committee comprises two independent non-executive Directors and one executive Director, namely Mr. Hung Cho Sing, Mr. Zhu Wenxin and Mr. Ding Peiyuan. Mr. Hung Cho Sing 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 2015. 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 2015 is set out below:

Remuneration bands	**number of persons**
Nil to HK$1,000,000	2

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, Ms. Lo Wing Yan, Emmy and Ms. Ding Lizhen. 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 2015. 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 2015.

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. Pang Wing Hong 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. Pang Wing Hong is responsible for advising the Board through the Chairman and/or the Chief Executive Officer on governance matters.

Mr. Pang Wing Hong 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 2015.

The biographical details of the Joint Company Secretaries are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 31 to 33 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 HLB Hodgson Impey Cheng Limited, 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

HLB Hodgson Impey Cheng Limited has been appointed as the external auditor of the Company to fill the vacancy following the resignation of KPMG and to hold office until the conclusion of the next AGM of the Company. An announcement was published by the Company on 22 April 2016, which specified the circumstances leading to the resignation of KPMG and that KPMG has confirmed that there are no other matters that need to be brought to the attention of the shareholders of the Company. The Company also confirmed that there are no matters in relation to the resignation of KPMG that need to be brought to the attention of the Shareholders. During the year ended 31 December 2015, the fees payable to HLB Hodgson Impey Cheng Limited in respect of its audit services were RMB1.6 million.

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 2015.

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 ir@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 2015.

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 45, 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 42, 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 10 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 49, 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 15 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hung Cho Sing, aged 75, was appointed as an independent non-executive Director of our Company on 14 April 2016 and has over 30 years of experience in the film distribution industry and founded Delon International Film Corporation in 1970. Mr. Hung has been the chairman of Hong Kong, Kowloon and New Territories Motion Picture Industry Association Limited since 1991 and was the chairman of Hong Kong Film Awards Association Limited from 1993 to 1995. Mr. Hung was appointed by the Hong Kong Special Administrative Region (HKSAR) Government as a member of the Hong Kong Film Development Council from 2007 to 31 March 2013. Mr. Hung was also appointed as a consultant of the China Film Association since 2013. Mr. Hung is also a member of HKSAR Election Committee and a vice chairman of the Cultural Profession Committee of the Guangdong, Hong Kong and Macau Cooperation Promotion Council (廣東省粵港澳合作促進會文化專業委員會副主任委員). Mr. Hung was awarded the Bronze Bauhinia Star (BBS) by the HKSAR Government in 2005 in recognition of his contribution to the Hong Kong Film industry. Mr. Hung has been appointed by the HKSAR Government as member of the Working Group on Manufacturing Industries, Innovative Technology, and Cultural and Creative Industries under the Economic Development Commission on an ad personam basis for a term of two years with effect from 17 January 2013 which has been renewed for a term of two years from 2015.

Mr. Hung is an executive director of Universe International Holdings Limited (stock code: 1046). He is also an independent non-executive director of Freeman Financial Corporation Limited (stock code: 279), China Star Entertainment Limited (stock code: 326), Unity Investments Holdings Limited (stock code: 913) and Sunrise (China) Technology Group Limited (stock code: 8226). Mr. Hung was a non-executive director of Capital VC Limited (stock code: 2324) from September 2011 to January 2014 and an independent non-executive director of Mascotte Holdings Limited (stock code: 136) from January 2013 to October 2015. All these companies are listed on The Stock Exchange of Hong Kong Limited.

Mr. Zhu Wenxin (祝文欣), aged 43, 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).

Ms. Lo Wing Yan, Emmy, aged 43, was appointed as an independent non-executive Director of our Company on 14 April 2016 and has over 20 years of solid experience in financial management, accounting and auditing. Ms. Lo holds a master degree of Applied Finance from University of Western Sydney. Ms. Lo has been an associate member of Hong Kong Institute of Certified Public Accountants. Ms. Lo has been the company secretary of Titan Petrochemicals Group Limited (stock code: 1192) since October 2015.

SENIOR MANAGEMENT

Mr. Pang Wing Hong, aged 45, was appointed as chief financial officer and one of the joint company secretaries on 19 October 2015 and has over 20 years of solid experience in financial management, accounting, auditing and corporate finance with strong comprehension of the China and international markets. He holds a Bachelor of Business Administration degree, majoring in professional accountancy, from The Chinese University of Hong Kong and a Master of Business Administration degree from The University of Adelaide, Australia. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

Ms. Ding Wanwan (丁皖皖), aged 41, 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.

JOINT COMPANY SECRETARIES

Mr. Pang Wing Hong, please refer to the paragraph headed "Senior Management" above for his biographical details.

Ms. Lu Yanping (盧燕萍), aged 27, was appointed as one of the joint company secretaries of our company on 16 December 2013. Ms. Lu joined our Group in July 2010. She is mainly responsible for providing assistance to the Chairman of the Company in the discharge of his duties and responsibilities as chairman of the Board, including coordination of board meeting and preparation of board minutes.

REPORT OF THE DIRECTORS

The Directors are pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2015.

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 36 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2015, aggregate sales to the Group's largest and five largest customers accounted for 17.2% (2014: 20.4%) and 51.3% (2014: 52.8%), respectively, of the Group's total turnover for the year.

During the year ended 31 December 2015, aggregate purchases from the Group's largest and five largest suppliers of raw materials and OEM products accounted for 11.6% (2014: 8.9%) and 38.8% (2014: 40.1%), respectively, of the Group's total purchases for the year.

At no time during the year have the Directors, their close 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.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2015 are provided in the Chairman and Statement, Management's Discussion and Analysis and the Corporate Governance Report of this annual report.

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 120 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 2015 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 41 to 46 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 2015 are set out in note 11 to the consolidated financial statements.

RESERVES

Details of movements in reserves of the Company and the Group are set out in note 27 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

The distributable reserve of the Company as at 31 December 2015 was RMB239,942,000 (2014: RMB242,134,000) as calculated based on the Company's share premium and capital reserves and accumulated loss under applicable provisions of the Companies Law in the Cayman Islands.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2015 (2014: HK2 cents).

No interim dividend (2014: HK2 cents per ordinary share) was paid for the year of 2015.

CHARITABLE DONATIONS

No charitable donations made by the Group during the year (2014: RMB0.01 million).

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 27 to the financial statements.

PRINCIPAL RISKS AND UNCERTAINTIES

A number of factors may affect the results and business operations of the Group, some of which are inherent to fashion business and some are from external sources. Major risks are summarized below.

(i) Fashion risk

Our success depends on our ability to define products trends and anticipate, gauge and react to changing consumer demands in a timely manner. Failure to anticipate and respond timely to changing consumer preferences could lead to lower sales and excess inventory levels. Within each design concept it is important to have the right volumes and achieve the right balance in the mix between fashion basics and the latest trends. To optimize fashion precision, we introduce products in different batches throughout the season and will further shorten the product development cycle in order to reduce the lead time between production and delivery to customers. In addition, shopping patterns and the length of product seasons can vary in different provinces in the mainland China. Accordingly, we adjust the delivery dates and product volumes for the various markets and stores depending on market condition.

(ii) Intense competition

We compete not only with local Chinese brands, but also with other international fashion brands. Areas of competition include product designs, production costs, marketing programs, customer services. If we do not respond timely to our competitors, our costs may increase or the consumer demand for our products may decline and our revenue and profits would decrease.

(iii) Macroeconomic environment

The risk exists that negative macroeconomic changes may result in negative changes in the business environment. Fashion products may be considered as discretionary items for customers. Slower consumer spending may result in reduced demand for our products, reduced orders from our distributors, order cancellations, higher discounts, increased inventories, lower revenue and margins. It is therefore important that the Group is aware of any such changes of economic environment and adjusts its store opening plan, buying volume and business plan under different market conditions.

(iv) Supply chain

We do own or operate a manufacturing facility but depend upon mostly independent manufacturers to produce all of our products and materials. Any disruption in the supply of fabric, raw materials and products from suppliers may cause problems in our supply chain. We have no long-term contracts with any of our suppliers and we may need to compete with other companies for fabrics, raw materials and apparel products. Nevertheless, we have developed long-standing relationships with a number of our vendors so as to minimize the impact from any supply disruptions and ensure we can locate alternative suppliers of comparable quality at a reasonable price all the time.

(v) Financial health of our distributors

We extend credit to our distributors based on as assessments of their financial conditions, repayment history and sales performance of the retail outlets operated by them, generally without requiring collateral. To assist in the scheduling of production of our products, our customers could place orders four to five months ahead of delivery under our sales fair ordering system. These advance orders may be cancelled and the risk of cancellation may increase when dealing with distributors struggling with financial difficulties. A slowing economy could also adversely affect the financial health of our customers, which in turn could have an adverse effect on our results of operation. In addition, product sales are dependent in part on an appealing store environment to attract consumers, which requires continuing investments by distributors. Distributors that experience financial difficulties may fail to make such investments and result in lower sales and orders for our products.

(vi) Information system

We are dependent on information technology systems and networks, including the internet and third-party hosted services across many of our operating activities, including sales and distribution, ordering and purchases, sales and distribution, inventory management in all retail outlets, e-commerce business, customer relationship management, digital marketing and financial reporting. Any material disruption or slowdown of our IT systems, including a disruption or slowdown caused by our failure to successfully upgrade our systems, system failures, viruses or cyber attacks could cause a loss of data or operation interruption. Therefore, we invest continuously in our IT and ERP system so as to keep up with the technology security and availability and integrity of critical operation data.

(vii) Reputational risk

Miko is one of the leading brands and our success depends on our ability to maintain and enhance our brand image and reputation. Maintaining and promoting our brands will depend on our product design, marketing efforts and product quality. In addition, effect of our marketing activities depends on our ability to adapt to the rapid changing media environment, including social media and online advertising campaigns. Should existing and potential customers lose confidence in Miko/or one of its brands, or in the industry in general, because of negative publicity, the Group's sales would decrease. To safeguard and manage the brand, it is important that the Group continues to uphold its brand value, corporate image, product safety and maintain high business ethics. In addition, it is also important that communication with our shareholders, customers and other stakeholders is accurate, transparent and reliable.

(viii) Weather

Extreme weather conditions in the areas in which our retail stores, suppliers and customers are located could adversely affect our operating results and financial condition.

KEY RELATIONSHIPS

(i) Employees

Human resources are one of the greatest assets of the Group and the Group regards the personal development of its employees as highly important. The Group wants to continue to be an attractive employer for committed employees.

The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills. The Group provides pre-employment and on-the-job training and development opportunities to our staff members. The training programs cover areas such as managerial skills, sales and production, customer services, quality control, sales fairs planning, workplace ethics and training of other areas relevant to the industry.

We seriously consider all those valuable feedback from our employees for enhancing workplace productivity and harmony. In addition, the Group offers competitive remuneration packages to our employees. The Group has also adopted share option schemes to recognize and reward the contribution of the employees to the growth and development of the Group.

(ii) Suppliers

We have developed long-standing relationships with a number of our vendors and take great care to ensure that they share our commitment to quality and ethics. We carefully select our OEM and require them to satisfy certain assessment criteria including track record, experience, financial strength, reputation, ability to produce high-quality products and quality control effectiveness. We also require our OEMs to comply with our anti-bribery policy.

(iii) Distributors

We sell our products to end customers through third-party distributors. We work with our distributors like we are business partners and ensure we share the view for upholding our brand value and customer services, specifically focusing on attracting and retaining customers in order to drive sales growth. We and our distributors reach an agreement on retail sales target and store expansion plan before they place their orders. We require our distributors and sub-distributors to comply with our retail policies, including but not limited to nationwide product retail selling price, standard store images, promotional activities and use of our ERP system. We also monitor the financial condition and repayment history of our distributors, and retail sales performance of the stores operated by them.

(iv) Customers

We are committed to offer a broad and diverse range of inspiring, value-for money, good-quality fashion with our various brands to our customers. We also stay connected with our customers. We maintain our VIP database and have ongoing communications with our customers through various channels like the Company's website, telephone, direct mail, marketing materials and social media. We also work with our distributors and provide training to their key sales personnel to provide quality and value-added customer services at retail channels.

ENVIRONMENTAL POLICIES

We are committed to building an environmentally-friendly corporation that pays close attention to conserving natural resources. We strive to minimize our environmental impact by saving electricity and encouraging recycle of office supplies and other materials. We also require factories of our OEM to operate in strict compliance with the relevant environmental regulations and rules and possess all necessary permission and approval from the relevant Chinese regulators.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in the mainland China while the Company itself is listed on the Stock Exchange. Our establishment and operations accordingly shall comply with relevant laws and regulations in the mainland China and Hong Kong. During the year ended 31 December 2015 and up to the date of this report, we have complied with all the relevant laws and regulations in the mainland China and Hong Kong.

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 1 January 2015 to 31 December 2015.

DIRECTORS

The Directors during the financial year were:

Executive Directors

Mr. Ding Peiji *(Chairman)*
Mr. Ding Peiyuan
Ms. Ding Lizhen
Mr. Gu Jishi (resigned on 30 June 2016)

Independent non-executive Directors

Mr. Hung Cho Sing (appointed on 14 April 2016)
Mr. Zhu Wenxin
Ms. Lo Wing Yan, Emmy (appointed on 14 April 2016)
Mr. Leung Wai Yip (resigned on 19 February 2016)
Mr. Wong Heng Choon (appointed on 19 February 2016 and resigned on 15 March 2016)
Mr. Mei Wenjue (resigned on 24 March 2016)

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 8 to the financial statements.

Details of the Directors' biographies have been set out on pages 31 to 33 of the annual report. In accordance with article 84 of the Company's articles of association, Mr. Ding Peiji, Mr. Zhu Wenxin, Mr. Hung Cho Sing and Ms. Lo Wing Yan, Emmy retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The list of names of all directors who have served on the boards of the subsidiaries of the Company during the year and up to the date of this report is available on the Company's website (http://www.redkids.com).

DIRECTORS' SERVICE CONTRACTS

None of the Directors has or proposed to have 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 2015.

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 2015, 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	247,076,694	29.62%
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%

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 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.

(6) The calculation is based on the total number of 824,000,000 ordinary Shares of the Company in issue as at 31 December 2015, 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 2015, none of the Directors and the chief executives of the Company and their respective close 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 2015, 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	247,076,694	29.62%
Mr. Ding[1]	L[5]	Interest in a controlled corporation	247,076,694	29.62%
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 2015, 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 2015, the sales of children's apparel products of the Group to Xiamen Minghao amounted to RMB9.5 million (FY2014: RMB22.9 million), which was below the prescribed annual cap of RMB29.0 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.

HLB Hodgson Impey Cheng Limited, 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 OF SIGNIFICANCE

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 in relation to the Group's business 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.

DIRECTORS' INDEMNITIES AND INSURANCE

As permitted by the articles of association of the Company, a director or a former director of the Company may be indemnified out of the Company's assets against any liability incurred by the director to a person other than the Company or an associated company of the Company that attaches to such director in his or her capacity as a director of the Company, to the extent permitted by law.

The Company has also taken out and maintained directors' and officers' liability insurance throughout the year, which provides appropriate cover for certain legal actions brought against its directors and officers.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

Save as disclosed in the paragraph headed "Non-Exempt Continuing Connected Transaction" above and in note 31 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 interests in any business which competes or are likely compete, either directly or indirectly, with the business of 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%
Others		
In aggregate	5,400,000	0.6%
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.

Name	As at 1 January 2015	Number of Pre-IPO Share Options Granted during the year	Exercised during the year	Forfeited during the year	As at 31 December 2015
Directors					
Mr. Ding Peiyuan	800,000	—	—	—	800,000
Ms. Ding Lizhen	800,000	—	—	—	800,000
Others					
In aggregate	4,750,000	—	—	1,430,000	3,320,000
Total	6,350,000	—	—	1,430,000	4,920,000

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 2015, 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 25 to the financial statements.

AUDITORS

KPMG resigned as the auditors of the Company on 21 April 2016 as disclosed in the announcement dated 22 April 2016 and HLB Hodgson Impey Cheng Limited ("HLB") was being appointed to fill the casual vacancy at 29 April 2016 and to hold office until the conclusion of the AGM of the Company. A resolution will be proposed at the forthcoming annual general meeting to re-appoint HLB as the auditors of the Company.

APPRECIATION

I would like to take this opportunity to thank my fellow Directors, as well as the management and all our employees for the contribution they have made towards the Group's continued progress to our shareholders, customers and business partners for their support.

On behalf of the Board

Ding Peiji
Chairman

Hong Kong, 29 July 2016

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

Independent auditors' 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 51 to 119, which comprise the consolidated statement of financial position as at 31 December 2015, 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.

DIRECTORS' 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.

AUDITORS' 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 auditors' 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 auditors consider 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.

INDEPENDENT AUDITORS' REPORT

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December, 2015, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 December 2014 were audited by another auditor who expressed an unmodified opinion on those statements on 18 March 2015.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Hon Koon Fai, Alex
Practising Certificate Number: P05029

Hong Kong, 29 July 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015 (Expressed in Renminbi)

	Note	2015 RMB'000	2014 RMB'000
Turnover	4	**585,698**	795,699
Cost of sales		**(373,252)**	(495,367)
Gross profit		**212,446**	300,332
Other revenue	5	**7,605**	2,865
Other net gain/(loss)	5	**1,079**	(1,578)
Impairment loss recognised on property, plant and equipment		**(15,761)**	—
Selling and distribution expenses		**(92,378)**	(57,935)
Administrative and other operating expenses		**(37,959)**	(46,956)
Profit from operations		**75,032**	196,728
Finance costs	6(a)	**(3,111)**	(3,409)
Profit before taxation	6	**71,921**	193,319
Income tax	7(a)	**(41,583)**	(55,405)
Profit for the year attributable to shareholders of the Company		**30,338**	137,914
Other comprehensive (loss)/income for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of overseas subsidiaries		**(638)**	629
Total comprehensive income for the year attributable to shareholders of the Company		**29,700**	138,543
Earnings per share (RMB cents)			
— Basic	10(a)	**4**	17
— Diluted	10(b)	**4**	17

The notes on pages 57 to 119 form part of these consolidated financial statements. Details of dividends payable to shareholders of the Company attributable to the profit for the year are set out in note 27(a).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015 (Expressed in Renminbi)

	Note	2015 RMB'000	2014 RMB'000
Non-current assets			
Property, plant and equipment	11	**80,904**	56,022
Construction in progress	12	**1,272**	—
Intangible assets	14	**61,628**	490
Lease prepayments	15	**2,853**	2,941
Deposits for purchase of property, plant and equipment	13	**6,400**	92,000
Deposits for purchase of an intangible asset		**—**	3,300
Deposits for acquisition of distribution channels	16	**33,384**	—
Goodwill	17	**15,095**	—
Deferred tax assets	18(b)	**2,258**	2,843
		203,794	157,596
Current assets			
Inventories	19	**43,231**	41,783
Trade and other receivables	20	**310,321**	333,226
Pledged bank deposits	21	**55,082**	2,000
Fixed deposits at banks with original maturity over three months		**—**	52,680
Cash and cash equivalents	22(a)	**446,244**	432,384
		854,878	862,073
Current liabilities			
Bank loans	23	**57,724**	37,700
Trade and other payables	24	**47,506**	38,865
Current tax payable	18(a)	**8,942**	16,643
		114,172	93,208
Net current assets		**740,706**	768,865
Total assets less current liabilities		**944,500**	926,461
Non-current liabilities			
Deferred tax liabilities	18(b)	**1,300**	1,300
Net assets		**943,200**	925,161

The notes on pages 57 to 119 form part of these consolidated financial statements.

As at 31 December 2015 (Expressed in Renminbi)

	Note	2015 RMB'000	2014 RMB'000
Equity			
Share capital	27	**6,483**	6,483
Reserves	27	**936,717**	918,678
Total equity		**943,200**	925,161

Approved and authorised for issue by the board of directors on 29 July 2016.

Ding Peiji	Ding Peiyuan
Director	*Director*

The notes on pages 57 to 119 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Note	Share capital RMB'000 27(b)	Share premium RMB'000 27(c)(i)	Share-based payment reserve RMB'000 27(c)(iv)	Capital reserve RMB'000 27(c)(v)	Exchange reserve RMB'000 27(c)(iii)	Statutory reserve RMB'000 27(c)(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	27(c)(v)	—	—	—	145,549	—	—	—	145,549
Capitalisation issue	27(b)(ii)	5,027	(5,027)	—	—	—	—	—	—
Share issued by global offering	27(b)(iii)	1,448	310,721	—	—	—	—	—	312,169
Equity-settled share-based transaction		—	—	3,436	—	—	—	—	3,436
Dividends declared	27(a)(i)	—	(45,858)	—	—	—	—	—	(45,858)
Appropriation to statutory reserve	27(c)(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 57 to 119 form part of these consolidated financial statements.

For the year ended 31 December 2015 (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
		27(b)	27(c)(i)	27(c)(iv)	27(c)(v)	27(c)(iii)	27(c)(ii)		
Balance at 1 January 2015		**6,483**	**259,836**	**5,383**	**145,549**	**10,167**	**53,396**	**444,347**	**925,161**
Changes in equity for 2015:									
Profit for the year		—	—	—	—	—	—	30,338	30,338
Other comprehensive loss		—	—	—	—	(638)	—	—	(638)
Total comprehensive (loss)/income		—	—	—	—	(638)	—	30,338	29,700
Equity-settled share-based transaction		—	—	1,350	—	—	—	—	1,350
Dividend paid	27(a)(ii)	—	(13,011)	—	—	—	—	—	(13,011)
Lapse of share options		—	—	(1,021)	—	—	—	1,021	—
Appropriation to statutory reserve	27(c)(ii)	—	—	—	—	—	4,738	(4,738)	—
Balance at 31 December 2015		**6,483**	**246,825**	**5,712**	**145,549**	**9,529**	**58,134**	**470,968**	**943,200**

The notes on pages 57 to 119 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2015 (Expressed in Renminbi)

	Note	2015 RMB'000	2014 RMB'000
Operating activities			
Cash generated from operations	22(b)	**138,166**	118,789
Income tax paid		**(48,698)**	(54,153)
Net cash generated from operating activities		**89,468**	64,636
Investing activities			
Payment for the purchase of property, plant and equipment and intangibles assets		**(20,828)**	(63,728)
Advance payment for acquisition of distribution channels		**(33,384)**	—
Proceed from repayment of deposits for purchase of property, plant and equipment		**20,000**	—
Receive/(placement) of fixed deposits at banks with original original maturity over three months		**52,680**	(52,680)
Placement of pledged bank deposits		**(53,082)**	(2,000)
Interest received	5	**3,576**	1,794
Net cash outflow for acquisition of distribution channels	28	**(55,514)**	—
Net cash used in investing activities		**(86,552)**	(116,614)
Financing activities			
Gross proceeds from global offering		**—**	330,080
Payment of expenses related to global offering		**—**	(17,421)
Proceeds from bank loans		**72,724**	37,700
Repayment of bank loans		**(52,700)**	(76,890)
Net advance from related parties		**7,710**	—
Dividends paid		**(13,011)**	(45,858)
Interest paid	6(a)	**(3,111)**	(3,409)
Net cash generated from financing activities		**11,612**	224,202
Net increase in cash and cash equivalents		**14,528**	172,224
Cash and cash equivalents at 1 January		**432,384**	260,079
Effect of foreign exchange rate changes		**(668)**	81
Cash and cash equivalents at 31 December	22(a)	**446,244**	432,384

The notes on pages 57 to 119 form part of these consolidated financial statements.

(Expressed in Renminbi unless otherwise indicated)

1 GENERAL INFORMATION

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

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the business of design, manufacture and sales of children apparel products. There were no significant changes in the nature of the Group's principal activities during the year.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board (the "IASB") and International Accounting Standards ("IASs") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong (the "Listing Rules") and by Hong Kong Companies Ordinance (Cap. 622) (the "new CO").

The provisions of the new CO regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended December 31, 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamline with IFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended December 31, 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended December 31, 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor Companies Ordinance or the Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(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.

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2015 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that derivate financial statements are stated at their fair value as explained in the accounting policy as set out in note 2(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 consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(Expressed in Renminbi unless otherwise indicated)

2 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:

— Amendments to IAS 19, Employee benefits: Defined benefit plans: Employee contributions

— *Annual Improvements to IFRSs 2010–2012 Cycle*

— *Annual Improvements to IFRSs 2011–2013 Cycle*

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

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 2(j)(ii)).

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 2(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.

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 competition.

— Leasehold improvement	Over lease terms
— 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.

Construction in progress represents items of property, plant and equipment under construction or installation and testing, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 2(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 2(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.

Distribution channels recognised as an intangible asset on the basis of the remaining contractual term of the related contract regardless of whether market participants would consider potential contractual renewals in determining when measuring its fair value. It is amortised from the remaining contractual terms of the right required and shall not include renewal periods.

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

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis an intangible assets that are acquired separately.

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(j) Impairment of assets other than goodwill

(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.

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment of assets other than goodwill (Continued)

(i) Impairment of trade and other receivables (Continued)

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.

(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;

— 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).

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment of assets other than goodwill (Continued)

(ii) Impairment of other assets (Continued)

— *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.

(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 2(j)(i) and (ii)).

(k) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquire and the equity interests issued by the Group in exchange for control of the acquire. Acquisition-related costs are generally recognised in profit or loss as incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Business combinations (Continued)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 respectively;

- Liabilities or equity instruments related to share-based payment arrangements of the acquire or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquire are measured in accordance with IFRS 2 at the acquisition date; and

- Assets (or disposals groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquire (if any) over the net of the acquisition-dates amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-dates amounts of the identifiable assets acquired and the liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquire and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

(l) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Goodwill (Continued)

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(m) 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.

(n) 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 2(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.

(o) 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.

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) 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.

(q) 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.

(r) 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).

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Income tax

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Income tax (Continued)

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.

(t) 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.

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) 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.

(v) 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.

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) 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.

(x) 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.

(y) Dividends

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

(z) 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.

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(z) Related parties (Continued)

(b) (Continued)

(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).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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.

(aa) 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 two businesses: 1) manufacture and wholesales of children's apparel products and 2) retail outlets of children's apparel products, in the PRC.

(Expressed in Renminbi unless otherwise indicated)

3 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 2. 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 property, plant and equipment

The Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid. The Group tests annually whether the assets have suffered any impairment. The recoverable amount of an asset or a cash-generating unit is determined based on value in use calculations or fair value which require the use of assumptions and estimates.

(c) 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.

(Expressed in Renminbi unless otherwise indicated)

3 ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

(d) Income tax

The Group is subject to income taxes in Hong Kong and mainland China. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(e) 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.

(f) Impairment of goodwill acquired from business combination

The Group determines whether goodwill acquired from business combination is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(g) Fair value of identifiable assets acquired through business combination

The Group records assets acquired in business combinations at fair value on the date of acquisition. Significant judgment is used to estimate the fair value of the assets acquired, including estimating future cash flows from the acquired business, determining appropriate discount rates, asset useful lives and other assumptions.

(Expressed in Renminbi unless otherwise indicated)

4 TURNOVER AND SEGMENT INFORMATION

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

Segment revenue and results:

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

	Wholesalers		Retail outlets		Total	
	2015 RMB'000	2014 RMB'000	**2015 RMB'000**	2014 RMB'000	**2015 RMB'000**	2014 RMB'000
Revenue from external customers	**583,689**	795,699	**2,009**	—	**585,698**	795,699
Inter-segment revenue	**7,355**	—	**—**	—	**7,355**	—
Reportable segment revenue	**591,044**	—	**2,009**	—	**593,053**	795,699
Segment results	**95,390**	208,073	**(2,358)**	—	**93,032**	215,171
Other revenue					**69**	2,865
Other net loss					**—**	(1,578)
Impairment loss recognised on property, plant and equipment					**(15,761)**	—
Central administration costs					**(5,383)**	(19,730)
Finance costs					**(36)**	(3,409)
Profit before taxation					**71,921**	193,319

All of the segment revenue reported above are generated from external customers.

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

(Expressed in Renminbi unless otherwise indicated)

4 TURNOVER AND SEGMENT INFORMATION (Continued)

Segment assets and liabilities:

	Wholesalers		Retail outlets		Total	
	2015 RMB'000	2014 RMB'000	**2015 RMB'000**	2014 RMB'000	**2015 RMB'000**	2014 RMB'000
Segment assets	**935,431**	1,008,889	**91,056**	—	**1,026,487**	1,008,889
Unallocated assets					**32,185**	10,780
Total assets					**1,058,672**	1,019,669
Segment liabilities	**99,783**	92,460	**253**	—	**100,036**	92,460
Unallocated liabilities					**15,436**	2,048
Total liabilities					**115,472**	94,508

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

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

— all liabilities are allocated to reportable segments other than liabilities held by the Company and its subsidiaries which the role are investment holding company.

Geographical information:

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

	2015 RMB'000	2014 RMB'000
PRC	**585,698**	795,699
Overseas	**—**	—
	585,698	795,699

(Expressed in Renminbi unless otherwise indicated)

4 TURNOVER AND SEGMENT INFORMATION (Continued)

Information about major customers:

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

	2015 RMB'000	2014 RMB'000
Customer A	**100,489**	162,078
Customer B*	**—**	89,641
Customer C	**73,892**	—

* No information on turnover for the current year is disclosed for this customer since it contributed less than 10% to the Group's turnover for the year ended 31 December 2015.

5 OTHER REVENUE AND OTHER NET GAIN/(LOSS)

	2015 RMB'000	2014 RMB'000
Other revenue		
Interest income	**3,576**	1,794
Government grants*	**3,820**	846
Others	**209**	225
	7,605	2,865
Other net gain/(loss)		
Net foreign exchange gain/(loss)	**514**	(985)
Change in fair value of a foreign exchange forward contract	**565**	(593)
	1,079	(1,578)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2015 RMB'000	2014 RMB'000
(a) Finance costs:		
Interest on bank loans	**3,111**	3,409
(b) Staff costs (included directors' remuneration):		
Contributions to defined contribution retirement plans	**3,191**	1,908
Salaries, wages and other benefits	**41,258**	46,509
Equity-settled share-based payment expenses	**1,350**	3,436
	45,799	51,853
(c) Other items:		
Amortisation		
— lease prepayments	**88**	88
— intangible assets	**2,534**	50
Depreciation	**4,698**	3,172
Auditors' remuneration	**4,500**	2,450
Loss on disposal of property, plant and equipment	**2,102**	—
Impairment loss of property, plant and equipment	**15,761**	—
Operating lease charges in respect of properties	**1,555**	1,704
Research and development expenses	**8,783**	4,533
Cost of inventories sold#	**373,252**	495,367

Cost of inventories for the year ended 31 December 2015 includes RMB24,308,000 (2014: RMB28,012,000) 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.

(Expressed in Renminbi unless otherwise indicated)

7 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:

	2015 RMB'000	2014 RMB'000
Current tax		
— PRC corporate income tax	**40,930**	54,843
Under-provision in prior year	**67**	—
Deferred tax		
— Origination of temporary differences (note 18)	**586**	562
	41,583	55,405

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

	2015 RMB'000	2014 RMB'000
Profit before taxation	**71,921**	193,319
Notional tax on profit before taxation, calculated at the standard tax rates applicable to the respective tax jurisdictions	**18,435**	52,974
Tax effect of income and expenses not taxable or deductible for tax purpose	**19,649**	85
Tax effect of unused tax losses not recognised	**3,432**	1,046
Under-provision in prior year	**67**	—
Withholding tax effect of undistributed profits retained by PRC subsidiaries (Note (iv))	**—**	1,300
Actual tax expense	**41,583**	55,405

(Expressed in Renminbi unless otherwise indicated)

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)

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

(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 2014 and 2015.

(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.

(Expressed in Renminbi unless otherwise indicated)

8 DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

Year ended 31 December 2015

	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 c) RMB'000	Total RMB'000
Executive directors							
Mr. Ding Peiji	100	711	59	14	884	—	884
Mr. Ding Peiyuan	100	616	51	11	778	219	997
Ms. Ding Lizhen	100	616	51	7	774	219	993
Mr. Gu Jishi (Note c)	100	782	25	3	910	219	1,129
Sub-total	400	2,725	186	35	3,346	657	4,003
Independent non-executive directors#							
Mr. Leung Wai Yip (Note a)	144	—	—	—	144	—	144
Mr. Mei Wenjue (Note b)	144	—	—	—	144	—	144
Mr. Zhu Wenxin	144	—	—	—	144	—	144
Sub-total	432	—	—	—	432	—	432
Total	832	2,725	186	35	3,778	657	4,435

(Expressed in Renminbi unless otherwise indicated)

8 DIRECTORS' REMUNERATION (Continued)

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 c)	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
Ms. Ding Lizhen	100	616	7	51	774	393	1,167
Mr. Gu Jishi (note c)	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 (Note a)	136	—	—	—	136	—	136
Mr. Mei Wenjue (Note b)	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

Note:

(a) Mr. Leung Wai Yip has resigned as independent non-executive director with effective from 19 February 2016.

(b) Mr. Mei Wenjue has resigned as independent non-executive director with effective from 24 March 2016.

(c) Mr. Gu Jishi has resigned as executive director with effective from 30 June 2016.

(d) 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 2(r)(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 26.

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 9 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.

(Expressed in Renminbi unless otherwise indicated)

9 INDIVIDUAL WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2014: four) are directors whose remuneration is disclosed in note 8 above. The emoluments in respect of the remaining individual (2014: one) are as follows:

	2015 RMB'000	2014 RMB'000
Salaries and other emoluments	**981**	984
Discretionary bonus	**—**	953
Equity-settled share-based payments	**—**	344
Contributions to defined contribution retirement plans	**12**	8
	993	2,289

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

	2015 Number of Individual	2014 Number of Individual
Nil to HK$1,000,000	**1**	—
HK$2,500,001 to HK$3,000,000	**—**	1

The emoluments paid or payable to members of senior management (excluding the Directors as disclosed in note 8) are within the following bands:

	2015 Number of Individual	2014 Number of Individual
Nil to HK$1,000,000	**2**	1
HK$2,500,001 to HK$3,000,000	**—**	1

During the years ended 31 December 2015 and 2014, no emoluments were paid by the Group to any of the highest paid individuals and senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

(Expressed in Renminbi unless otherwise indicated)

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 RMB30,338,000 (2014: RMB137,914,000) and the weighted average of 824,000,000 ordinary shares (2014: 816,482,000 ordinary shares).

Weighted average number of ordinary shares

	2015	2014
	'000	'000
Issued ordinary shares at 1 January	**824,000**	640,000
Effect of shares issued by global offering	**—**	176,482
Issued ordinary shares at 31 December	**824,000**	816,482

(b) Diluted earnings per share

The effect of the Company's share options was anti-dilutive for the year ended 31 December 2015, and therefore, diluted earnings per share are the same as the basic earnings per share. (2014: Same)

(Expressed in Renminbi unless otherwise indicated)

11 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvement	Machinery	Motor Vehicles	Furniture, Fixtures and Equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At 1 January 2014	50,459	—	7,631	4,693	3,619	66,402
Additions	—	—	5	2,740	321	3,066
Transfer from construction progress	18,081	—	—	—	—	18,081
At 31 December 2014 and 1 January 2015	68,540	—	7,636	7,433	3,940	87,549
Additions	42,731	—	108	—	59	42,898
Acquisition (note 28)	—	4,442	—	—	103	4,545
Disposals	(217)	(1,846)	—	—	(39)	(2,102)
At 31 December 2015	111,054	2,596	7,744	7,433	4,063	132,890
Accumulated depreciation and impairment:						
At 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 and 1 January 2015	17,604	—	6,657	4,341	2,925	31,527
Charge for the year	3,419	306	84	634	255	4,698
Impairment loss recognised for the year	15,761	—	—	—	—	15,761
At 31 December 2015	36,784	306	6,741	4,975	3,180	51,986
Net book value:						
At 31 December 2015	74,270	2,290	1,003	2,458	883	80,904
At 31 December 2014	50,936	—	979	3,092	1,015	56,022

(Expressed in Renminbi unless otherwise indicated)

11 PROPERTY, PLANT AND EQUIPMENT (Continued)

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

(b) Buildings with net book value of RMB7,900,000 as at 31 December 2015 (2014: RMB8,748,000) were pledged as collateral for the Group's bank loans (note 23).

(c) At 31 December 2015, the application of the ownership certificates for buildings with net book value of RMB29,258,000 were in progress (2014: RMB40,249,000).

(d) During the year ended 31 December 2015, due to the construction of Building No.18 has fallen behind the original schedule. In order not to cause any further delay of the Group's plan to set up its research and development centre in Shanghai, and given that Building No.7 was readily available, the directors of the Company has negotiated with the seller to acquire Building No.7. For further details, please refer to the note 13 of this annual report and the Company's announcement dated 18 March 2015.

The recoverable amount of the Building No.7 has been determined based on fair value less cost of disposal of the Building No.7. The fair value of the Building No.7 was determined based on the market comparable approach that reflects recent transaction prices for similar properties, adjusted for differences in the nature, location and condition of the building under review.

One of the key unobservable inputs used valuing the Building No.7 was the adjusted price per square metre, which ranged from RMB12,500 to RMB13,390. A slight increase in the adjusted price per square metre used would result in a significant increase in the fair value measurement of the building, and vice versa.

As at 31 December 2015, the recoverable amount of the Building No.7 was approximately RMB26,489,000 which was below its net carrying amount and impairment loss of approximately RMB15,761,000 has been recognised during the year ended 31 December 2015.

12 CONSTRUCTION IN PROGRESS

	2015 **RMB'000**	2014 RMB'000
At 1 January	**—**	974
Additions	**1,272**	17,107
Transfer to property, plant and equipment	**—**	(18,081)
At 31 December	**1,272**	—

(Expressed in Renminbi unless otherwise indicated)

13 DEPOSITS FOR PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

On 13 June 2013, Red Kids (China) Company Limited ("Red Kids China"), an indirect wholly owned subsidiary of the Company, 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 which is included a prepayment of decoration cost 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 No.7 is signed.

On 18 September 2015, Shanghai Fashitu had requested for the extension of the prepayment dated of the remaining balance RMB13,823,000 to 31 January 2016. As at 31 December 2015, the remaining balance RMB13,823,000 was recognised as other receivable under current assets (note 20). The remaining balance was received as at the date of this annual report.

As at 31 December 2015, the Group had made a deposit RMB6,400,000 for decoration of Building No.7.

(Expressed in Renminbi unless otherwise indicated)

14 INTANGIBLE ASSETS

	Computer software RMB'000	Distribution channels RMB'000	Total RMB'000
Cost:			
At 1 January 2014	639	—	639
Additions	5	—	5
At 31 December 2014 and 1 January 2015	644	—	644
Additions	27,798	—	27,798
Acquisition (Note 28)	—	35,874	35,874
At 31 December 2015	28,442	35,874	64,316
Accumulated amortisation:			
At 1 January 2014	104	—	104
Charge for the year	50	—	50
At 31 December 2014 and 1 January 2015	154	—	154
Charge for the year	525	2,009	2,534
At 31 December 2015	679	2,009	2,688
Net book value:			
At 31 December 2015	27,763	33,865	61,628
At 31 December 2014	490	—	490

14 INTANGIBLE ASSETS (Continued)

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

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

Computer software	10 years
Distribution channels	2–4¼ years

Distribution channels

On December 2014, Red Kids (China) Limited (the "Red Kids (China)") and two independent third parties, Quanzhou City Rui Hong Apparel Trading Co., Ltd. and Jiangsu Xiaopier Children Apparel Trading Limited* (江蘇小皮爾童裝貿易有限公司) (the "Distributors"), entered into distributor contracts. According to the distributor contracts, the Red Kids (China) granted two independent third parties the exclusive distributorship of the "redkids" brand in the authorized geographic area. The Distributors have the rights to open new retail stores and develop the distribution network in the authorised areas to sell "redkids" products manufactured by the Red Kids (China). The contractual terms are from 1 January 2015 to 31 December 2019.

During the year, Quanzhou Tuoyu Trade Company Limited (the "Quanzhou Tuoyu"), an indirect wholly owned subsidiary of the Company, and the Red Kids (China) entered into acquisition agreements with the Distributors to acquire their distribution channels. For the further detail of the acquisition of distribution channels, please refer to the note 28 of this annual report.

Based on the authorised distribution period granted to the Distributor by the Red Kids (China), the distribution channels is a key identifiable intangible asset that arises from contractual rights during the remaining contractual period which planned to be acquired by the Quanzhou Tuoyu.

The fair value of distribution channels as at the date of the completion of the acquisition of distributions channels is based the Multi-period Excess Earning Model method. The fair value of the distribution channels is the sum of discounted present value of the projected annual excess earnings throughout its remaining legal useful life.

* *The English name is for identification only*

(Expressed in Renminbi unless otherwise indicated)

15 LEASE PREPAYMENTS

	RMB'000
Cost:	
At 1 January 2014, 31 December 2014, 1 January 2015 and 31 December 2015	4,206
Accumulated amortisation:	
At 1 January 2014	1,177
Charge for the year	88
At 31 December 2014 and 1 January 2015	1,265
Charge for the year	88
At 31 December 2015	1,353
Net book value:	
At 31 December 2015	2,853
At 31 December 2014	2,941

Lease prepayments with net book value of RMB1,788,000 (2014: RMB1,843,000) as at 31 December 2015 were pledged as collateral for the Group's bank loans (note 23).

Lease prepayments represent the costs of land use rights in respect of certain leasehold lands located in Mainland China, which are held under a medium lease term.

16 DEPOSITS FOR ACQUISITION OF THE BUSINESS ON THE DISTRIBUTION CHANNELS

Regarding the acquisition of the business on the distribution channels from Rui Hong (the "Acquisition"), the Red Kids (China) had made payments on behalf of the Quanzhou Tuoyu to the Rui Hong in the total amount of RMB71,498,000. On September 2015, the transfer of 26 distribution channels was taken place and an amount of RMB38,114,000 was recognised as consideration paid for the Acquisition. The remaining payments were recognised as deposits for the Acquisition of the remaining distribution channels and the transfer of the remaining distribution channels was taken place on 30 June 2016. Please refer to the note 37 of this annual report.

(Expressed in Renminbi unless otherwise indicated)

17 GOODWILL

	RMB'000
Cost:	
At 1 January 2014, 31 December 2014 and 1 January 2015	—
Acquisition (note 28)	15,095
At 31 December 2015	15,095
Accumulated impairment:	
At 1 January 2014, 31 December 2014 and 1 January 2015	—
Impairment for the year	—
At 31 December 2015	—
Net book value:	
At 31 December 2015	15,095
At 31 December 2014	—

Goodwill arose from the acquisitions of distribution channels which has completed on 30 September 2015 and 31 December 2015. Goodwill was allocated to the groups of cash-generating units identified according to the operations, which was substantially allocated to the investment in retails outlets. For the further detail, please refer to the note 28 of this annual report.

Particular of impairment testing on goodwill

Goodwill has been allocated for impairment testing purposes to the following cash-generating units ("CGU"):

— Retail outlets

The recoverable amount of the CGU is determined based on value-in-use calculation, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-years period, and the discount rate approximately 14% that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5-years period have been extrapolated using 3% growth rate per annum. The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the net book value of the unit to exceed its recoverable amount.

(Expressed in Renminbi unless otherwise indicated)

17 GOODWILL (Continued)

Particular of impairment testing on goodwill (Continued)

The key assumptions used in the value-in-use calculations for the cash-generating units are as follows:

Budget sale	Average sales in the period immediately before the budget period. The values assigned to the assumption reflect past experience.
Budgeted gross margin	Average gross margin achieved in the period immediately before the budget period which reflect past experience.

18 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2015 **RMB'000**	2014 RMB'000
Provision for PRC corporate income tax	**8,942**	16,643

(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 2014	2,105	—	2,105
Charged/(credited) to profit or loss (note 7(a))	738	(1,300)	(562)
At 31 December 2014 and 1 January 2015	2,843	(1,300)	1,543
Credited to profit or loss (note 7(a))	(585)	—	(585)
At 31 December 2015	2,258	(1,300)	958

18 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:

	2015 RMB'000	2014 RMB'000
Net deferred tax asset recognised in the consolidated statement of financial position	**2,258**	2,843
Net deferred tax liability recognised in the consolidated statement of financial position	**(1,300)**	(1,300)
	958	1,543

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(s), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB17,141,000 (2014: RMB7,010,000) 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 RMB14,941,000 (2014: RMB4,791,000) 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 RMB510,832,000 (2014: RMB467,571,000) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

19 INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	2015	2014
	RMB'000	RMB'000
Raw materials	**2,944**	5,705
Work in progress	**2,710**	4,957
Finished goods	**37,577**	31,121
	43,231	41,783

20 TRADE AND OTHER RECEIVABLES

	2015	2014
	RMB'000	RMB'000
Trade receivables		
— third parties	**251,071**	283,201
— related parties	**—**	8,542
Trade receivables	**251,071**	291,743
Prepayments to suppliers	**24,313**	40,802
Other deposits, prepayments and receivables	**34,937**	681
	310,321	333,226

Normally, the Group does not obtain collateral from customers. Credit evaluations are performed by the senior management on all customers with credit sales. In general, the credit period granted to customers is 120 days (2014: 90 days).

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

(Expressed in Renminbi unless otherwise indicated)

20 TRADE AND OTHER RECEIVABLES (Continued)

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

	2015 **RMB'000**	2014 RMB'000
Within 90 days	**175,905**	291,743
90–120 days	**75,166**	—
After 120 days but within 180 days	**—**	—
	251,071	291,743

As at 31 December 2015 and 2014, no trade receivables were past due.

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 2(j)(i)). For the years ended 31 December 2015 and 2014, the Group did not record any impairment losses in respect of trade receivables.

Other deposit, prepayments and receivables included a receivable amount of RMB13,823,000 which is prepayment of the remaining balance of deposits of purchase of a property (note 13).

21 PLEDGED BANK DEPOSITS

As at 31 December 2015, Bank deposits of RMB5,082,000 have been pledged as security for bank loans (note 23) (2014: Bank deposits of RMB2,000,000 have been pledged as security for foreign exchange forward contracts). Bank deposits of RMB50,000,000 (2014: nil) have been pledged as collateral for the Group's undrawn banking facilities of RMB50,000,000.

(Expressed in Renminbi unless otherwise indicated)

22 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2015 RMB'000	2014 RMB'000
Cash at bank and on hand	**446,244**	432,384

At 31 December 2015, cash and cash equivalents, pledged bank deposits and fixed deposits at banks with original maturity over three months with aggregate amount of RMB495,651,000 (2014: RMB476,304,000) 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.

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

	Note	2015 RMB'000	2014 RMB'000
Profit before taxation		**71,921**	193,319
Adjustments for:			
Depreciation	6(c)	**4,698**	3,172
Amortisation of intangible assets	6(c)	**2,534**	50
Amortisation of lease prepayments	6(c)	**88**	88
Equity-settled share-based payments		**1,350**	3,436
Finance costs	6(a)	**3,111**	3,409
Interest income	5	**(3,576)**	(1,794)
Loss on disposal of property, plant and equipment	6(c)	**2,102**	—
Impairment loss of property, plant and equipment	6(c)	**15,761**	—
Changes in working capital:			
Increase in inventories		**(1,448)**	(3,022)
Decrease/(increase) in trade and other receivables		**55,127**	(78,439)
Decrease in trade and other payables		**(13,502)**	(1,430)
Cash generated from operations		**138,166**	118,789

(Expressed in Renminbi unless otherwise indicated)

23 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:

	2015 RMB'000	2014 RMB'000
Bank loans		
— secured	**22,024**	17,000
— guaranteed	**24,700**	9,700
— unsecured	**11,000**	11,000
	57,724	37,700

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

	2015 RMB'000	2014 RMB'000
Buildings held for own use (note 11)	**7,900**	8,748
Lease prepayments (note 15)	**1,788**	1,843
Pledged bank deposits (note 21)	**5,082**	—
	14,770	10,591

Bank loans of RMB24,700,000 as at 31 December 2015 (2014: RMB9,700,000) are guaranteed by Mr. Ding Peiji (the director of the Company) and a third party.

Bank loan of RMB5,024,000 as at 31 December 2015 (2014: nil) which is denominated in Hong Kong dollars, bears interest at 1.25% above the Hong Kong Interbank Offered Rate per month and is secured by certain bank deposit and is guaranteed by the Company.

The bank loans comprise:

	2015 RMB'000	2014 RMB'000
Fixed-rate bank loans	**52,700**	37,700
Variable-rate bank loans	**5,024**	—

(Expressed in Renminbi unless otherwise indicated)

23 BANK LOANS (Continued)

The effective interest rates per annum at the respective reporting dates, are as follows:

	2015	2014
Fixed-rate bank loans	**5.26–6.67%**	6.06–7.32%
Variable-rate bank loans	**1.42%**	—

At the end of the reporting period, bank loans were denominated in the following currencies:

	2015 **RMB'000**	2014 RMB'000
RMB	**52,700**	37,700
HKD	**5,024**	—
	57,724	37,700

24 TRADE AND OTHER PAYABLES

	2015 **RMB'000**	2014 RMB'000
Trade payables	**4,638**	16,733
Receipts in advance	**1,088**	952
Amounts due to related parties	**7,710**	—
Other payables and accruals	**34,070**	20,587
Derivative financial liabilities		
— foreign exchange forward contract	**—**	593
	47,506	38,865

(Expressed in Renminbi unless otherwise indicated)

24 TRADE AND OTHER PAYABLES (Continued)

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

	2015 RMB'000	2014 RMB'000
Within 3 months	**4,141**	16,236
After 3 months but within 6 months	**—**	497
After 6 months but within 1 year	**—**	—
After 1 year	**497**	—
	4,638	16,733

25 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.

(Expressed in Renminbi unless otherwise indicated)

26 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		

(Expressed in Renminbi unless otherwise indicated)

26 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 ended 31 December 2015		Year ended 31 December 2014	
	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**	**6,350**	HK$1.824	7,000
Granted during the year	**—**	**—**	—	—
Forfeited during the year*	**HK$1.824**	**1,430**	HK$1.824	650
Outstanding at the end of the year	**HK$1.824**	**4,920**	HK$1.824	6,350
Exercisable at the end of the year	**HK$1.824**	**1,476**	HK$1.824	—

* The Pre-IPO options of five employees were forfeited as they resigned in 2015 (2014: two).

The share options outstanding as at 31 December 2015 had an exercise price of HK$1.824 (2014: HK$1.824) and a weighted average remaining contractual life of 6 years (2014: 7 years).

(Expressed in Renminbi unless otherwise indicated)

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

(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.

At the date of approval of these financial statements, the Company had 4,920,000 share options outstanding under the share option schemes, which represented approximately 0.6 % of the Company's shares in issue as of that date.

(Expressed in Renminbi unless otherwise indicated)

27 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

	2015 RMB'000	2014 RMB'000
No interim dividend declared and paid (2014: HK2 cents per ordinary share)	**—**	13,067
No final dividend proposed after the end of the reporting period (2014: HK2 cents per ordinary share)	**—**	13,002
	—	26,069

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.

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

	2015 RMB'000	2014 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK2 cents per ordinary share (2014: nil)	**13,011**	—
Special dividend in respect of the previous financial year, approved and paid during the year (2014: HK5 cents per ordinary share)	**—**	32,791
	13,011	32,791

(Expressed in Renminbi unless otherwise indicated)

27 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Share capital

(i) Authorised and issued share capital

	2015			2014		
	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	79,380
Ordinary shares, issued and fully paid:						
At 1 January	**824,000,000**	**8,240**	**6,483**	1,000,000	10	8
Capitalisation issue (note 27(b)(ii))	**—**	**—**	**—**	639,000,000	6,390	5,027
Shares issued by global offering (note27(b)(iii))	**—**	**—**	**—**	184,000,000	1,840	1,448
At 31 December	**824,000,000**	**8,240**	**6,483**	824,000,000	8,240	6,483

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.

(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).

(Expressed in Renminbi unless otherwise indicated)

27 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Share capital (Continued)

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

Exercise period	Exercise price	2015 Number	2014 Number
15 January 2015 to 14 January 2022	HK$1.824	**1,476,000**	1,905,000
15 January 2016 to 14 January 2022	HK$1.824	**1,476,000**	1,905,000
15 January 2017 to 14 January 2022	HK$1.824	**1,968,000**	2,540,000
		4,920,000	6,350,000

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 26 to the consolidated financial statements.

(c) 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.

(Expressed in Renminbi unless otherwise indicated)

27 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(c) 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 2(v).

(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.

(d) Distributable reserve

The distributable reserve of the Company as at 31 December 2015 was RMB239,942,000 (2014: 242,134,000).

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for 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 2015 was 6% (2014: 4%).

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

(Expressed in Renminbi unless otherwise indicated)

28 ACQUISITION OF DISTRIBUTION CHANNELS

(a) Acquisition of business on the distribution channels from Quanzhou City Rui Hong Apparel Trading Co., Ltd.

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

On before 31 December 2015, the Quanzhou Tuoyu and the Red Kids (China) had entered a supplemental agreement with the Rui Hong to extend the long stop date for the second phase of transfer of the remaining 26 distributions channels to 30 June 2016. Please refer to the Company's announcement dated 13 January 2016 for details. The transfer of the remaining distribution channel was taken place on 30 June 2016. Please refer to note 37 of this annual report.

During the year, the Red Kids (China) had made payments on behalf of the Quanzhou Tuoyu to Rui Hong in the total amount of RMB71,497,600 for the Rui Hong Transfer. On September 2015, the transfer of 26 distribution channels was taken place and an amount of RMB38,114,000 was recognised as consideration paid.

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

The net assets acquired and recognised at the date of the Rui Hong Transfer as follow:

	Fair value RMB'000
Property, plant and equipment (note 11)	3,276
Intangible assets (note 14)	28,486
	31,762
Goodwill arising on the business combination (note 17)	6,352
	38,114

(Expressed in Renminbi unless otherwise indicated)

28 ACQUISITION OF DISTRIBUTION CHANNELS (Continued)

(a) Acquisition of business on the distribution channels from Quanzhou City Rui Hong Apparel Trading Co., Ltd. (Continued)

Total consideration satisfied by:

	RMB'000
Cash consideration paid	38,114

An analysis of the cash flows in respect of the Rui Hong Transfer is as follow:

	RMB'000
Cash consideration paid	38,114
Net outflow of cash and cash equivalents included in cash flows from investing activities	38,114

Since the acquisition, distribution channels from the Rui Hong contributed RMB1,657,000 to the Group's revenue and RMB 812,000 to the consolidated profit for the year ended 31 December 2015. Has these business combination been effected at 1 January 2015, the profit for the year of approximately RMB6,005,000 and revenue for the year of approximately RMB22,364,000 attributable to the Group.

(b) Acquisition of business on the distribution channels from Jiangsu Xiaopier Children Apparel Trading Limited*

On 23 June 2015, the Quanzhou Tuoyu and the Red Kids (China) entered into acquisition agreements with Jiangsu Xiaopier Children Apparel Trading Limited* ("江蘇小皮爾童裝貿易有限公司", (the "XPE"), a distributor of the Red Kids (China), to acquire its 15 distribution at a cash consideration of RMB17,400,000 (the "XPE Transfer").

On 30 September 2015 and 31 December 2015, the transfer of the first 8 and the remaining 7 distribution channels was taken place respectively and an amount of RMB17,400,000 was recognised as consideration paid.

The directors of the Company had considered the acquisition of distribution channels from the XPE constitute as business combination in accordance with IFRS 3 Business Combinations.

28 ACQUISITION OF DISTRIBUTION CHANNELS (Continued)

(b) Acquisition of distribution channels from Jiangsu Xiaopier Children Apparel Trading Limited* (Continued)

The net assets acquired and recognised at the date of the XPE Transfer as follow:

	Fair value RMB'000
Property, plant and equipment (note 11)	1,269
Intangible assets (note 14)	7,388
	8,657
Goodwill arising on the business Combination (note 17)	8,743
	17,400

Total consideration satisfied by:

	RMB'000
Cash consideration paid	17,400

An analysis of the cash flows in respect of the XPE Transfer is as follow:

	RMB'000
Cash consideration paid	17,400
Net outflow of cash and cash equivalents included in cash flows from investing activities	17,400

Since the acquisition, distribution channels from the XPE contributed RMB352,000 to the Group's revenue and RMB172,000 to the consolidated profit for the year ended 31 December 2015. Has these business combination been effected at 1 January 2015, the profit for the year of approximately RMB2,744,000 and revenue for the year of approximately RMB7,730,000 attributable to the Group.

* *The English name is for identification only*

(Expressed in Renminbi unless otherwise indicated)

29 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 20.

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. 18% of the total trade receivables as at 31 December 2015 (2014: 22%) were due from the Group's largest customer, and 58% (2014: 56%) 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.

(Expressed in Renminbi unless otherwise indicated)

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

(b) Liquidity risk

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

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

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

	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 2015	59,008	57,724
At 31 December 2014	38,704	37,700

(Expressed in Renminbi unless otherwise indicated)

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

(c) Interest rate risk

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

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

	2015		2014	
	Effective interest rate	**Amount RMB'000**	Effective interest rate	Amount RMB'000
Fixed rate borrowings:				
Bank loans	**5.26–6.67%**	**52,700**	6.06–7.32%	37,700
Variable rate borrowings:				
Bank loan	**1.42%**	**5,024**	—	—

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.

(e) Fair values

(i) 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 2015 and 2014.

(Expressed in Renminbi unless otherwise indicated)

30 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2015 not provided for in the financial statement were as follows:

	2015 RMB'000	2014 RMB'000
Contracted for	**19,582**	24,469

(b) Operating lease arrangements — As lessee

At 31 December 2015, the total future minimum lease payments under non- cancellable operating leases are payable as follows:

	2015 RMB'000	2014 RMB'000
Within 1 year	**526**	1,065
After 1 year but within 5 years	**1,056**	208
	1,582	1,273

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.

(Expressed in Renminbi unless otherwise indicated)

30 COMMITMENTS (Continued)

(c) Operating lease arrangements — As lessor

At 31 December 2015, the total future minimum lease receivables under non- cancellable operating leases are receivable as follows:

	2015 RMB'000	2014 RMB'000
Within 1 year	**216**	—
After 1 year but within 5 years	**223**	—
	439	—

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

31 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
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
Opulent Ample Limited	Shareholder of the Company which is a beneficially owned by Mr. Ding Weizhu, who is a father of Mr. Ding Peiji

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

(Expressed in Renminbi unless otherwise indicated)

31 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) Material transactions with related parties

Save as disclosed elsewhere in the consolidated financial statements, during the years end 31 December 2015 and 2014, the Group had entered into the following transactions with related parties which, in the opinion of the directors, were carried out in the ordinary course of the Group's business.

(i) Sales of products

Minghao Xiamen is a distributor of the Group. Sales of products to Minghao Xiamen during the year ended 31 December 2015 amounted to RMB9,513,000 (2014: RMB22,931,000). At 31 December 2015, the trade receivable from Minghao Xiamen was nil (2014: RMB8,542,000).

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) Amounts due to related parties

During the year ended 31 December 2015, the Group obtained interest-free loan of RMB11,837,000 from Opulent Ample Limited (2014: nil).

The amounts due to Opulent Ample Limited and Minghao Xiamen as at 31 December 2015 were RMB7,704,000 and RMB6,000 respectively (2014: nil) which are unsecured, interest-free and repayable on demand. The carrying amount is approximate to its fair value (note 24).

(iii) Guarantee provided by a related party

Secured bank loans of RMB24,700,000 as at 31 December 2015 (2014: RMB9,700,000) were guaranteed by Mr. Ding Peiji (note 23).

(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:

	2015 RMB'000	2014 RMB'000
Short-term employee benefits	**4,312**	6,224
Contributions to retirement benefit scheme	**46**	40
Equity-settled share-based payments	**658**	2,125
	5,016	8,389

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

(Expressed in Renminbi unless otherwise indicated)

32 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

As at 31 December 2015, the directors consider the immediate and ultimate controlling parties to be Think Wise Holdings Investment Limited and Mr. Ding Peiji respectively.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2015

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 2015 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
IAS 1 Amendment, Disclosure initiative	1 January 2016
IAS 16 and IAS 38 Amendment, Clarification of Acceptable Methods of Depreciation and Amortization	1 January 2016
IAS 16 and IAS 41 Amendment, Agriculture: Bearer Plants	1 January 2016
IAS 27 Amendment, Equity Method in Separate Financial Statements	1 January 2016
IAS 28 and IFRS 10 Amendment, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
IFRS 10, IFRS 12 and IAS 28 Amendment, Investment Entities: Applying the Consolidation Exception	1 January 2016
IFRS 11 Amendment, Accounting for Acquisitions of Interests in Joint Operation	1 January 2016
IFRS 14, Regulatory Deferral Accounts	1 January 2016
Annual Improvements Project, Annual Improvements 2012–2014 cycle	1 January 2016
IFRS 9, Financials Instruments	1 January 2018
IFRS 15, Revenue from Contracts with Customers	1 January 2018
IFRS 16, Leases	1 January 2019

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

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

(Expressed in Renminbi unless otherwise indicated)

34 FINANCIAL POSITION OF THE COMPANY

	2015 RMB'000	2014 RMB'000
Non-current assets		
Investments in subsidiaries	**4,127**	3,436
Amount due from a subsidiary	**250,555**	240,937
	254,682	244,373
Current assets		
Other receivables	**8**	8
Cash and cash equivalents	**10**	4,985
	18	4,993
Current liabilities		
Other payables and accruals	**8,275**	749
	8,275	749
Net current assets	**8,257**	4,244
Total assets less current liabilities	**246,425**	248,617
Net assets	**246,425**	248,617
Equity		
Share capital	**6,483**	6,483
Reserves	**239,942**	242,134
Total equity	**246,425**	248,617

Approved and authorised for issue by the board of directors on 29 July 2016.

Ding Peiji
Director

Ding Peiyuan
Director

(Expressed in Renminbi unless otherwise indicated)

35 RESERVES OF THE COMPANY

	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
		27(b)	27(c)(i)	27(c)(iv)	27(c)(iii)		
Balance at 1 January 2014		8	—	1,947	55	(8,393)	(6,383)
Change in equity for 2014:							
Loss for the year		—	—	—	—	(15,969)	(15,696)
Other comprehensive income		—	—	—	1,222	—	1,222
Total comprehensive income		—	—	—	1,222	(15,969)	(14,747)
Capitalisation issue	27(b)(ii)	5,027	(5,027)	—	—	—	—
Shares issued by global offering	27(b)(iii)	1,448	310,721	—	—	—	312,169
Equity-settled share-based transaction		—	—	3,436	—	—	3,436
Dividends declared	27(a)(i)	—	(45,858)	—	—	—	(45,858)
Balance at 1 January 2015		6,483	259,836	5,383	1,277	(24,362)	248,617
Changes in equity for 2015:							
Loss for the year		—	—	—	—	(4,678)	(4,678)
Other comprehensive income		—	—	—	14,147	—	14,147
Total comprehensive income		—	—	—	14,147	(4,678)	9,469
Equity-settled share-based transaction		—	—	1,350	—	—	1,350
Dividend paid	27(a)(i)	—	(13,011)	—	—	—	(13,011)
Lapse of share options		—	—	(1,021)	—	1,021	—
Balance at 31 December 2015		**6,483**	**246,825**	**5,712**	**15,424**	**(28,019)**	**(246,425)**

(Expressed in Renminbi unless otherwise indicated)

36 PARTICULARS OF SUBSIDIARIES

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 and voting power: Held by the Company	Proportion of Ownership interest and voting power: Held by a Subsidiary	Principal activity
Obvious Cheer Investment Development Limited	BVI	1 share of USD 1 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
Quanzhou Tuoyu Trade Co., Ltd.* 泉州拓宇貿易有限公司	PRC	HK$1,000,000	100%	—	100%	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

37 EVENT AFTER THE REPORTING PERIOD

On 30 June 2016, the acquisition of the remaining 26 distributions channels from Rui Hong was took place. All applicable conditions precedent of the acquisition agreement have been satisfied. The directors of the Group are still assessing the impact of the acquisition to the Group up to the date of this annual report.

FIVE YEARS FINANCIAL SUMMARY

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

	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000
Turnover	**585,698**	795,699	661,416	519,987	392,369
Gross Profit	**212,446**	300,332	260,086	195,814	143,909
Profit from operations	**75,032**	196,728	181,507	133,258	90,061
Profit before taxation	**71,921**	193,319	177,181	130,781	87,882
Profit for the year	**30,338**	137,914	129,613	115,438	77,323
Non-current assets	**203,794**	157,596	96,440	46,915	48,929
Current assets	**854,878**	862,073	556,298	323,948	232,292
Current liabilities	**114,172**	93,208	281,416	134,619	160,408
Total assets	**1,058,672**	1,019,669	539,053	370,863	281,221
Total liabilities	**115,472**	94,508	256,889	134,619	160,408
Net current assets	**740,706**	768,865	274,882	189,329	71,884
Net assets	**943,200**	925,161	371,322	236,244	120,813
Gross profit margin	**36.3%**	37.7%	39.3%	37.7%	36.7%
Operating profit margin	**12.8%**	24.7%	27.4%	25.6%	22.4%
Net profit margin	**5.2%**	17.3%	19.6%	22.2%	19.7%
Current ratio	**7.5 times**	9.2 times	2.0 times	2.4 times	1.4 times
Gearing ratio	**6.1%**	4.1%	20.7%	16.4%	18.5%
Inventory turnover day	**42 days**	30 days	30 days	62 days	112 days
Trade receivables turnover day	**169 days**	121 days	121 days	111 days	77 days
Trade and bills payables turnover day	**10 days**	12 days	12 days	11 days	11 days

The Company was 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.