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MIKO INTERNATIONAL HOLDINGS LIMITED
米格國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1247)

SUPPLEMENTARY ANNOUNCEMENT

Reference is made to the announcement of Miko International Holdings Limited (the "**Company**") dated 2 June 2017 (the "**Announcement**"). Unless otherwise defined herein, terms used in this announcement shall have the same meanings as those defined in the Announcement.

Further to the information disclosed in the Announcement, the Company would like to supplement the following additional information:

(I) ACQUISITION AGREEMENT

(A) Distribution Channels are revenue-generating assets with identifiable income stream.

The Distribution Channels comprise a total of 53 retail outlets in Sichuan Province, the PRC, and all the outlets are mainly selling children's apparel. Since all the outlets included in the Distribution Channels are revenue generating (i.e. income generated from selling children's apparel), we consider that the Distribution Channels are revenue-generating assets with identifiable income stream.

(B) Estimated net profit before/after tax

The table below sets forth the estimated net profits (both before and after tax) attributable to the Distribution Channels for the years ended 31 December 2015 and 2016.

	For the year ended 31 December 2015 *(RMB$000)* (unaudited)	**For the year ended 31 December 2016** *(RMB$000)* (unaudited)
Estimated net profit before tax	13,540 (equivalent to approximately HK$16,160)	11,034 (equivalent to approximately HK$12,322)
Estimated net profit after tax	10,155 (equivalent to approximately HK$12,120)	8,275 (equivalent to approximately HK$9,242)

(C) Accounting treatment

According to the consistency principle, the Distribution Channels will be recognized as an intangible asset in the Company's financial statements of the Company after completion. The adoption of this accounting treatment reflects the nature of the Distribution Channels, and thereby ensuring the Company to deliver fair financial information to its shareholders and potential investors.

(D) Details of the Distribution Channels

The Distribution Channels were established since March 2011. The revenue contribution to the Group by the Distribution Channels was approximately RMB40.5 million for the year ended 31 December 2016. The distributorship agreement with the Seller is in line with the overall arrangement for the Group with other distributors in the PRC that authorize the distributors to sell "Redkids" brand.

(E) Payment terms under the Acquisition Agreement

The Acquisition will be paid by two instalments.

The payment for the first instalment will be RMB34,393,044 and will be settled by issue of the convertible bonds in the face value of RMB34,393,044.

The payment for the second instalment will be RMB14,606,956, which is the difference between the First Instalment payment and the total consideration (i.e. RMB49,000,000–RMB34,393,044), and will be settled by cash.

(II) SUBSCRIPTION AGREEMENT

(A) The convertible bonds to the Seller referred to the convertible bonds to be subscribed by the Subscriber under the Subscription Agreement. The Subscriber and the Seller are both wholly owned and controlled by the same ultimate beneficial owner.

(B) Reason for issuing convertible bonds to finance the Acquisition

The Directors of the Company had considered other alternative ways to finance the Acquisition before deciding to adopt the current method of issuing convertible bond, but decided to finance the Acquisition of way of issuing convertible bonds after considering the draw backs of these alternatives.

Regarding cash settlement, despite having a cash balance of approximately RMB213.8 million as at 31 December 2016, the Company recorded a loss for the same year and the cash balance as at 31 March 2017 also decreased. Therefore, the Company preferred reserving the cash under such circumstance.

Regarding pre-emptive issue, considering that (i) the relatively low market capitalisation of the Company; (ii) the relatively low daily trading volume of the Company's shares on the Stock Exchange; and (iii) the performance of the Company's share price, the Company is of the view that issue of new shares is likely to be at a further discount to the market price of the Company's shares and may result in more shareholding dilution in order to raise sufficient fund to finance the Acquisition.

As to debt financing, the annual interest rate of bank loans the Company can obtain would be around 6%, which is higher than the interest cost of convertible bonds (4%). Such cost has not yet taken the indispensable bank charges and/or handling fees associated with the bank loans into account.

Therefore, after careful consideration the Company believed that issuing Convertible Bonds would be the best financing method for the Acquisition in the current case.

(III) SUPPLEMENTAL AGREEMENT IN RELATION TO THE SUBSCRIPTION AGREEMENT

As disclosed in the Announcement, the Company and the Subscriber undertake to each other that it will use its best endeavours to procure each party to fulfil the tasks under the conditions precedent, and in no event complete not later than 15 June 2017 (or such other date as agreed by each party in writing).

The Board announces that on 15 June 2017, the parties of the Subscription Agreement entered into a supplemental agreement (the "**Supplemental Subscription Agreement**") which contains the following principal terms:

- to extend the completion date for the fulfilment of the conditions precedent to 23 June 2017;
- the Parties agree that the subscription shall complete upon the fulfillment of all conditions precedent by each party, i.e. as soon as possible after 23 June 2017;
- the Purchaser and the Company shall not be liable for payment of damages due the abovementioned time extension for subscription.

Save as the above, the other terms and conditions of the Subscription Agreement shall remain unchanged.

(IV) INFORMATION ON THE ACQUISITION

(A) The Board contemplated the Acquisition on 30 March 2017, that the chairman of the Board mentioned the idea of acquiring the Distribution Channels in Sichuan Province. The Company started in-depth discussion and negotiation with the Seller and engaged independent valuer to conduct valuation of the Distribution Channels in April.

(B) It is the Company's usual practice to reserve a considerate amount of time in advance of expiry of distribution agreement for the purpose of negotiating with the distributor for renewal of distribution agreement. It was the Board of Directors' view that the ordinary arrangement to grant the "Redkids" brand right to sell the products in the region would continue to contribute revenue and profits to the Group. Hence, by entering into the latest distribution agreement with the Seller on 5 January 2017 (the "**2017 Distribution Agreement**"), it would be in the interest of the Company and its shareholders.

(C) The Company started negotiation on renewal of distribution agreement with the Seller in the end of 2016 and entered into the 2017 Distribution Agreement on 5 January 2017, at the time the Company still had no plan in relation to the Acquisition. It was not until around 30 March 2017 that the Board of Directors started to contemplate the idea of the Acquisition, and the Company expressed interest of the same to the Seller in April 2017. The Company does not believe there is any concern to enter into the Acquisition in June 2017 (5 months after the date of the 2017 Distribution Agreement). Notwithstanding that the nature of a renewal of distribution agreement and the Acquisition is completely different (the former being an ordinary arrangement of the Company, and the latter being a business strategy of the Company in the long run), it is also not uncommon that the Company keeps open to and assess business opportunities for its business strategies and react accordingly.

(D) The Distribution Channels in Sichuan Province will be operated by the Group upon the completion of Acquisition, and the Group will be able to sell its products through the Distribution Channels directly to the end customers. Save as the above, the business and revenue model of the Distribution Channels will not be changed materially as no material change will be made to the products, locations, store design in relation to the Distribution Channels.

(E) The Distribution Channels will not have competition issue with the Company's existing distributors and/or self-operating store as: (i) the Group would acquire the entire Distribution Channels in the Sichuan Province from the Seller that solely sold "Redkids" brand children's apparel; (ii) the Group does not currently own any self-operating store in the Sichuan Province; and (iii) the Group typically grants each distributor exclusive rights in a designated area or region to sell the Company's products and there will be no other distributor in the Sichuan Province after the completion of Acquisition. As such, competition in this region will not be a concern after the completion of Acquisition as the Group will have full control to operate all of these stores directly.

(F) The management of the Company has numerous years of experience working with distributors in the PRC. Based on the management's in-depth market experience, the Company's long running business relationship with the Seller under distributorship agreement since 2011, the knowledge acquired from prior acquisition and operation of distribution channels in 2015 and 2016, the cost and risk in association with the operation of the Distribution Channels, together with the valuation made by the independent valuer, are all well considered by the Company. The Company's decision to acquire the Distribution Channels in the Sichuan Province is because the Board of Directors considers that the market potential and room for development in respect of children's apparel products in the region are positive and in the interest of the Company's shareholders.

(G) The Group currently does not own any self-operating stores in the Sichuan Province and all the retail stores in the region are operated by the distributor (i.e. Seller). After the completion of Acquisition, the Group will be able to sell its products through the Distribution Channels directly to the end customers at retail price, instead of selling the same to distributors at wholesale price as in the case of other distribution channels not owned and operated by the Group. Such arrangement is expected to have a positive influence on the gross profit margin and net profit margin of the Group. Further, since the Distribution Channels are already set up in the region and readily available, buying out them directly would not only save the Company's resources and time required to establish its own stores in the region, but would also increase the Company's market share in that region instantly. Therefore, the Company considers that the Acquisition is in the interest of the Company and its shareholders. The Directors believe that a considerate amount of time and resources would be spent on the following matters:

- finding suitable shop locations and negotiation of tenancy terms;
- arranging execution of tenancy agreements and paying additional property agency fees (in addition to the time waiting for the original tenancy to expire); and
- renovation of the shops and installation of equipment.

Based on the Board of Directors' market knowledge and experience, it is estimated that the costs for each individual shop, subject to its location and gross floor area, would be in the range of approximately RMB400,000 to RMB1,000,000 which includes renovation and equipment costs, transfer fee, deposits etc.. Further, the time required to establish distribution channels of similar scale would be at least 4 years. The Seller will also try to retain its existing employees for the Group so as to ensure a smooth transition of the Distribution Channels from the Seller to the Group.

Further, if the Company establishes its self-operating store to sell "Redkids" brand products in the region, it would have to terminate the distribution agreement with the Seller first since the exclusive rights to sell the same in the designated region was already granted to the Seller. This would result in immediate loss of sales to the Seller originally received by the Company in the meantime.

(H) By considering the setup cost and time span for the whole region channels of the retail stores in the region, the Company considers that this would be more cost beneficial to buy out the Distribution Channels directly from the distributor (i.e. Seller).

(I) No material capital expenditure by the Company is expected to maintain the business operation of the Distribution Channels.

(J) Since the Distribution Channel will continue to focus on selling children's apparel products after the completion of the Acquisition, the Company expects that there will be no material change in business strategy and operating structure of the Distribution Channels.

(K) The Company has always been exploring the possibility of acquiring distribution channels available for sale. As of this announcement's date, the Company has no concrete plan to acquire distribution channels operated by other distributors apart from the Distribution Channels located in the Sichuan province which in the Directors' view, show relatively positive prospect and room for development.

(V) INFORMATION ON THE DISTRIBUTION CHANNELS

(A) To the best of the Company's knowledge, the Distribution Channels were established since April 2011. The revenue contribution to the Group by the Distribution Channels was approximately RMB40.5 million for the year ended 31 December 2016.

(B) The 2017 Distribution Agreement's effective period is from 1 April 2017 to 31 March 2021.

(C) The 2017 Distribution Agreement includes the following major terms:

- Duration: 4 years and are renewable by mutual consent subject to negotiation of new terms.

- Designated geographical area: Exclusive rights granted to the Seller in Sichuan Province.

- Brand and products: Seller is authorised to sell the Group's products under the Company's "redkids" brand only.

(D) The Company will terminate the 2017 Distribution Agreement if the Acquisition proceeds to completion, and would only renew the same in the event that there is no such completion.

- Principal rights and obligations: The Group has the right to check the Seller's sales and inventory data on both regular and spontaneous bases.

- Sale and pricing policies: Seller is required to follow the Group's standardised nationwide sales, pricing and discount policies for the Group's products from time to time.

- Payment: Seller is required to pay full purchase prices of products within 120 days of delivery of the same to the designated areas.

- Restriction on operations: Seller is prohibited from distributing the Group's products in any undesignated geographical areas or selling self-manufactured products. Seller is not allowed to engage sub-distributors without prior consent of the Group. Seller is required to adopt the Group's standardised retail outlet design and layout from time to time and use the Group's standard product labels and packaging and follow the Group's standardised marketing brochures.

- Sales return policy: the Seller is allowed to return the products if there are products defects caused by quality issues.

- Termination: The Group is entitled to terminate the distribution agreement in writing if the Seller fails to comply with the Group's sales policy and/or breaches any terms of the distribution agreement.

- Confidentiality: the Seller is obligated to keep confidential any of the Group's trade secrets known or used by the Seller and not to disclose the same to any other third party.

(E) The distributorship agreement with the Seller is in line with the overall arrangement for the Group with other distributors in the PRC. Under the distributorship agreement, the price offered to the Seller is at similar level compared to that offered to other distributors of the Company which are of similar scale.

(VI) ANNOUNCEMENT

(A) The words "*initial price*" under the section "Means of Conversion" on page 7 of the Announcement was a typographical error, and should be substituted by "*conversion price*".

(B) The Valuation of the Distribution Channel on page 10 of the Announcement was a typographical error which should be "RMB50,880,000".

(C) For the purpose of identification, the English translation of the Seller, namely "成都佳尚服飾有限責任公司", would be "Chengdu JiaShang Apparel Company Limited".

Save as stated above, all the information in the Announcement remains unchanged.

By Order of the Board
Miko International Holdings Limited
Ding Peiji
Chairman

Quanzhou, China, 22 June 2017

As at the date of this announcement, the directors are as follows:

Executive directors:
Mr. Ding Peiji
Mr. Ding Peiyuan
Ms. Ding Lizhen

Independent non-executive directors:
Mr. Hung Cho Sing
Ms. Lo Wing Yan, Emmy
Mr. Chan Wai Wong