

INTERIM
REPORT

2017



MIKO INTERNATIONAL HOLDINGS LIMITED

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

The background features a light blue sky with several stylized clouds in white and light blue. Three birds are depicted in flight, scattered across the scene. The central focus is a large, dark blue cloud with a white outline, containing the text.

redkids
红孩儿



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CORPORATE INFORMATION

BOARD AND COMMITTEES

Executive Directors

Mr. Ding Peiji
Mr. Ding Peiyuan
Ms. Ding Lizhen

Independent Non-Executive Directors

Mr. Hung Cho Sing
Mr. Chan Wai Wong
Ms. Wong Yan Ki, Angel
(appointed on 15 July 2017)
Ms. Lo Wing Yan, Emmy
(resigned on 15 July 2017)

Audit Committee

Ms. Wong Yan Ki, Angel (*Chairman*)
Mr. Hung Cho Sing
Mr. Chan Wai Wong

Remuneration Committee

Mr. Hung Cho Sing (*Chairman*)
Mr. Chan Wai Wong
Mr. Ding Peiyuan

Nomination Committee

Mr. Chan Wai Wong (*Chairman*)
Ms. Ding Lizhen
Ms. Wong Yan Ki, Angel

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



CORPORATE INFORMATION

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

SMP Partners (Cayman) Limited
Royal Bank House
3rd Floor
24 Shedden Road, P.O. 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

LEGAL ADVISERS AS TO HONG KONG LAW

Stevenson Wong & Co

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MANAGEMENT DISCUSSION AND ANALYSIS







MANAGEMENT DISCUSSION AND ANALYSIS

MARKET, BUSINESS AND OUTLOOK

For the six months ended 30 June 2017, revenue and net loss of our Group amounted to approximately RMB116.9 million and RMB67.0 million respectively, as compared to the revenue and net profit of approximately RMB149.7 million and RMB1.2 million respectively for the six months ended 30 June 2016.

The clothing industry was still facing uncertainties and a tough business environment in the first six months of 2017. The recent slowdown in the economy has negatively impacted the clothing retail market and consumer sentiment in China. Meanwhile, the clothing industry needs transformation and upgrade in light of the impact of on-line shopping. All clothing brands are exploring their ways to further exploit consumption potential in the clothing market and improve their competitiveness. The need for children's garment remains strong, and is expected to grow at a certain rate for a long time due to continuous economic growth and national consumption demand, as well as the pursuit of higher living standards for the next generation.

In terms of distribution channel, we evaluated the performance of our current outlets carefully from time to time. We streamlined and closed down some outlets with relatively low performance (which impacted sales performance of our own branded products), and made adjustments to optimise performance of the remaining outlets in the first six months ended 30 June 2017. We also put restrictions on opening new outlets, in consideration of consumers now turn to malls and the internet for clothes shopping. Consumers' shopping experience is highly valued. In the first six months of 2017, we continuously upgraded and re-engineered the design and display of our current outlets. With optimised plans for design and display, some upgraded outlets can provide better shopping atmosphere and experience to consumers.

We also value the operating capacity of our brand retailers. In order to build a strong team spirit, we organised continuous trainings and developed incentive plans, which effectively improved the business capacity of front-line sales staff at our proprietary and distribution outlets.

In terms of brand promotion, we have been using new media and some platforms to promote the company brand and its products. The children's garment show that we organise every other year, together with order fairs, has attracted the attention of many dealers and end-consumers. The effective use of "We Media" like "WeChat" and "Weibo" has also enabled more frequent interactions between our target groups and us, and thus attracted more attention of consumers to our brand.

Although improvement in the current economic environment in China will be unlikely in the near future, and the overall operating environment remains challenging, the Group will use all means to minimise the negative impact from the slowdown of economy and fierce competition of the consumer market. The Group has developed and extended the strength of the self-operated stores by acquiring the additional distribution channels in Sichuan province during the current period since the prior acquisitions from Fujian and Jiangsu provinces in the year of 2015 and 2016 respectively. The acquisition of Sichuan province outlets is expected to complete by the end of 2017. The overall strategy of operational improvement, products and brand development will further be enhanced. We expect to maximise returns to the shareholders of the Company in the future.

MANAGEMENT DISCUSSION AND ANALYSIS



Personalisation and demand for product diversity become an unstoppable trend. The Group has already started up a newly developed product line “Migood” since last year and this brand including accessories and clothes, is highly praised by consumers in the market. The sales revenue is expected to grow as this product line goes forward.

Last but not least, the Group invested diversely into the factoring business under the joint venture cooperation in China since last year, and this would balance our outcome and returns to the shareholders of the Company under the current children related business environment. During the period, the factoring business was still at the start up stage and we expect positive outcome to be realised in the coming year.

Looking forward, the Group will seize and explore every new opportunity in the China market. Other than this, the Group is optimistic to the overall China economy due to a progressive relaxation of one-child policy, which would be beneficial to the children related industry in the long run. We will put more effort to improve and re-engineer the image of the outlets, product lines and product brand to the general public. Ultimately, the Group hopes to become one of the successful participants of the children related business in China.

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

	As at 30 June 2017			As at 31 December 2016		
	Operated by distributors	Self-operated	Total	Operated by distributors	Self-operated	Total
Shopping mall outlets and concessions	157	18	175	163	22	185
Street shops	184	28	212	226	26	252
	341	46	387	389	48	437



MANAGEMENT DISCUSSION AND ANALYSIS

	As at 30 June 2017			As at 31 December 2016		
	Operated by distributors	Self-operated	Total	Operated by distributors	Self-operated	Total
First-tier cities ^{Note 1}	—	—	—	—	—	—
Second-tier cities ^{Note 1}	74	4	78	75	5	80
Third-tier cities ^{Note 1}	142	24	166	172	24	196
Fourth-tier cities ^{Note 1}	125	18	143	142	19	161
	341	46	387	389	48	437

Note 1:

First-tier cities:	Beijing, Shanghai, Guangzhou and Shenzhen
Second-tier cities:	the capitals of provinces in China excluding Guangzhou, municipalities excluding Shanghai and Beijing, and the capitals of the autonomous regions in China
Third-tier cities:	Prefecture-level cities in China, excluding any first- and second- tier cities
Fourth-tier cities:	Country-level and other townships-level cities

FINANCIAL REVIEW

Revenue

Our Group's products are primarily marketed through wholesaling to distributors, and self-operated stores who operate "redkids" branded retail stores in various provinces and municipalities in China. As of 30 June 2017, there were 341 "redkids" branded retail stores operated by distributors and 46 self-operated stores in China.

The retail industry experienced a declining retail climate, uncertainty of consumer sentiment, and fierce competition in China during the first six months of 2017. Our Group's revenue was unavoidably affected by this challenging business environment despite a progressive relaxation of the one-child policy in China. Coupled with a decrease in sales volume caused by net outlets closures and a slow-down of orders received from our distributors and self-operated stores, our Group's revenue recorded a decrease of about 21.9%, from approximately RMB149.7 million for the six months ended 30 June 2016 ("**1H 2016**") to approximately RMB116.9 million for the six months ended 30 June 2017 ("**1H 2017**").

Sales to distributors continued to account for the majority of our Group's revenue during 1H 2017. Sales to distributors was approximately RMB94.7 million for 1H 2017, representing approximately 81.0% of our Group's revenue, as compared to that of approximately RMB146.1 million and 97.6% for 1H 2016.

After the transformation and upgrade in light of the impact of on-line shopping since last year, our Group generate sales revenue of RMB6.6 million in 1H 2017 from our designated online distributor as compared to that of no sales for 1H 2016.



MANAGEMENT DISCUSSION AND ANALYSIS

For the apparel products segment, sales volume was approximately 2.0 million units for 1H 2017, representing about a 31.0% decrease as compared to that of approximately 2.9 million units for 1H 2016. The average wholesale selling price for 1H 2017 recorded an increase as compared to that for 1H 2016, partially reflecting our change in product mix and change in sales channels in 1H 2017.

For the footwear and accessories segment, sales increased from approximately RMB0.08 million for 1H 2016 to approximately RMB12.6 million for 1H 2017. The increase in sales from this segment was mainly due to the adjustment in the products sales category strategy in 1H 2017.

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

	1H 2017		1H 2016		% change
	RMB'000	%	RMB'000	%	
Apparel	104,339	89.2	149,627	99.9	(30.3)
Footwear and Accessories	12,594	10.8	75	0.1	167.0
	116,933	100.0	149,702	100.0	(21.9)

	1H 2017		1H 2016		% change
	RMB'000	%	RMB'000	%	
Sales to distributors	94,677	81.0	146,120	97.6	(35.2)
Sales from self-operated stores	15,664	13.4	3,582	2.4	337.3
Sales to on-line distributor	6,592	5.6	—	—	—
	116,933	100.0	149,702	100.0	(21.9)

Cost of Sales

Our cost of sales recorded a decrease from approximately RMB95.4 million for 1H 2016 to approximately RMB91.9 million for 1H 2017, which was broadly in line with the decrease in sales volume in products mix. Raw materials and manufacturing overhead costs remained stable during 1H 2017. We devoted our focus on brand and retail stores management, and engaged other OEM factories to handle most of the manufacturing tasks. As a percentage of cost of sales, purchases from OEM factories accounted for approximately 58.1% for 1H 2017, which was comparable to that of approximately 83.5% for 1H 2016.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit decreased from approximately RMB54.3 million for 1H 2016 to approximately RMB25.1 million for 1H 2017. Gross profit margin was approximately 21.4% for 1H 2017, representing a decrease of approximately 14.9 percentage points as compared to that of 36.3% for 1H 2016.



MANAGEMENT DISCUSSION AND ANALYSIS

Other Revenue

During 1H 2017, our Group mainly included the interest income from bank deposits amounting to approximately RMB0.05 million for 1H 2017 (1H 2016: approximately RMB3.3 million.)

Share of Results from an Associate

In 1H 2017, share of profit from an associate of the Group was RMB0.2 million (1H 2016: Nil).

Impairment Loss Recognised on Trade Receivables

Impairment losses in respect of trade receivables of RMB25.4 million are recorded due to the management of the Company after taking into consideration the current credit worthiness, the past collection history, the aged status and the prevailing market conditions. 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.

Selling and Distribution Expenses

Selling and distribution expenses were approximately RMB48.0 million for 1H 2017, representing an increase of RMB16.9 million or about 54.3%, as compared to that of approximately RMB31.1 million for 1H 2016. The increase in selling and distribution expenses was mainly due to an increase in amortisation charges in relation to the acquisition of distribution channels and increase in the supporting arrangement in relation to the stores refurbishment plan by providing better shopping atmosphere of the distributors outlets recorded in 1H 2017. As a percentage of revenue, selling and distribution expenses were 41.1% for 1H 2017 (1H 2016: 20.8%).

Administrative and Other Operating Expenses

Administrative and other operating expenses were approximately RMB17.5 million for 1H 2017, representing an increase of approximately RMB3.4 million or about 24.1% as compared to that of RMB14.1 million for 1H 2016. The increase in the administrative and other operating expenses mainly reflected the increase in the design fee in relation to the collaboration in 1H 2017. As for the percentage of revenue, it increased from 9.4% for 1H 2016 to 15.0% for 1H 2017.

Finance Costs

Finance costs mainly represented interests on bank borrowings and convertible bonds. Finance costs were at a similar level of approximately RMB1.4 million for 1H 2016 and 1H 2017.

Income Tax Expenses

Income tax expenses were approximately RMB0.2 million (credited) for 1H 2017, as compared to that of approximately RMB9.5 million for 1H 2016. The effective tax rate was approximately 0.2% and 88.9%, respectively, for 1H 2017 and 1H 2016.

(Loss)/Profit for the Period

As a result of the foregoing, loss for the period of approximately RMB67.0 million was recorded as compared to the profit for 1H 2016 of approximately RMB1.2 million.



MANAGEMENT DISCUSSION AND ANALYSIS

Working Capital Management

Our Group recorded net current assets of approximately RMB492.4 million with a current ratio of 6.3 times as of 30 June 2017, compared to that of approximately RMB595.7 million and 8.2 times as of 31 December 2016. The table below sets forth the turnover days of trade receivables, inventories and trade payables at the end of the period indicated.

	Turnover days	
	As of 30 June 2017	As of 30 June 2016
Trade receivables	476	124
Inventories	118	100
Trade payables	11	10

Risks of Foreign Exchange Fluctuation

Except for operations of our Company and other investment holding companies outside 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 to be insignificant.

Liquidity and Capital Resources

Our Group mainly relies on cash flows from operations to finance working capital requirements and capital expenditures. Our Group's cash and cash equivalents, and fixed deposits totalled approximately RMB149.0 million as of 30 June 2017 (31 December 2016: approximately RMB213.8 million). Bank borrowings of our Group was approximately RMB57.3 million as of 30 June 2017, as compared to that of approximately RMB49.3 million as of 31 December 2016. Gearing ratio was only 7.7% and 6.1%, respectively, as of 30 June 2017 and 31 December 2016.

Our Group recorded a decrease in net cash used in operating activities of approximately RMB107.6 million, from net cash used in operating activities approximately RMB131.0 million for 1H 2016 to net cash used in operating activities approximately RMB23.4 million for 1H 2017 which mainly represented the decreases in trade receivables and prepayment to suppliers.

Net cash generated from investing activities was approximately RMB150.8 million for 1H 2017, as compared to the net cash used of approximately RMB282.5 million for 1H 2016 which mainly represented the net changes from fixed deposits and investment in an associate. Net cash generated from financing activities was approximately RMB9.0 million for 1H 2017, as compared to net cash used in financing activities of approximately RMB1.5 million for 1H 2016 which mainly represented a new bank loan raised.



MANAGEMENT DISCUSSION AND ANALYSIS

As a result of the foregoing, there was a net decrease in cash and cash equivalents of approximately RMB136.5 million for 1H 2017 (1H 2016: net decrease approximately RMB415.0 million).

Notes to financial ratios:

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

Issue of Convertible Bonds due 2019 under General Mandate

On 2 June 2017, the Company entered into the Acquisition Agreement with the purchaser (a subsidiary of the Group) and the seller (a distributor) to acquire the Distribution Channels in Sichuan Province for a consideration of RMB49,000,000. In view of the aforesaid Acquisition Agreement, the Company, the purchaser and the seller (as a subscriber) entered into a subscription agreement, pursuant to which the Subscriber conditionally agreed to subscribe and the Company conditionally agreed to issue convertible bonds due in 2019 of not more than RMB34,393,044. On 23 June 2017, all conditions precedent set out in the subscription agreement were fulfilled and the completion of issue of the convertible bonds had taken place. For details, please refer to the announcements of the Company dated 2 June 2017, 22 June 2017 and 23 June 2017.

Capital Commitments and Contingent Liabilities

Capital commitments contracted for but not provided for as at the end of the period/year indicated:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Contracted for	22,135	7,708

Our Group had no material contingent liabilities as of 30 June 2017.

Pledge of Assets

Buildings and lease prepayments with net book value of approximately RMB41.2 million as at 30 June 2017 (31 December 2016: approximately RMB18.0 million) were pledged as collateral for our Group's bank loans. No bank deposits (31 December 2016: Nil) have been pledged as security for our Group's bank loans.



MANAGEMENT DISCUSSION AND ANALYSIS

Significant Investments and Material Acquisitions and Disposals of Subsidiaries

Our Group had entered into an acquisition agreement with one of its distributors to acquire 53 distribution channels on 2 June 2017 by issuing convertible bonds whose completion of the issue took place on 23 June 2017. For further details, please refer to the separate announcements of the Company dated 2 June 2017, 22 June 2017 and 23 June 2017. Up to the date of this announcement, the acquisition of distribution channels had not been completed and transferred to our Group.

Save as disclosed above, our Group made no other significant investments, material acquisitions or disposal for the six months ended 30 June 2017.

Investments Held in Foreign Currency and Hedging

For the six months ended 30 June 2017, the Group did not hold any investments denominated in foreign currencies. Furthermore, the Group's working capital or liquidity did not encounter any material difficulties or material impacts as a result of the movement in exchange rate.

USE OF PROCEEDS

As of 30 June 2017, our Group had utilized the net proceeds from the global offering and over-allotment of new shares of the Company on 15 January 2014 as set out below:

	Percentage to the net proceeds (Note 1)	Net proceeds RMB'million	Utilised amount RMB'million	Unutilised amount (Note 2) RMB'million
Establish self-operated retail stores	32.1%	91.5	84.4	7.1
Enhance design and research and development capabilities in our design center in Shanghai	1.1%	3.3	3.3	—
Recruit at least 30 additional design and research and development staff	4.2%	12.0	5.5	6.5
Establish an ERP system	9.5%	27.0	24.2	2.8
Marketing and promotional activities	22.9%	65.2	60.6	4.6
Working capital and general corporate purposes	30.2%	86.0	86.0	—
	100.0%	285.0	264.0	21.0

Notes:

- (1) There had been some changes in the use of the Net Proceeds as compared with the original allocation made. For further details, please refer to the separate announcements of the Company dated 18 March 2015 and 7 October 2016.
- (2) The unutilised net proceeds have been placed in short-term deposits with licensed banking institutions in China.



MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICIES

The emolument policy of our Group aims at attracting, retaining and motivating talented individuals. The principle is to have performance-based remuneration which reflects market standards. Remuneration package for each employee is generally determined based on his or her job nature and position with reference to market standards. Our emolument policy will be adjusted depending on a number of factors, including changes to the market practice and stages of our business development, so as to achieve our operational targets. As at 30 June 2017, we employed around 515 full-time employees. The total staff costs for 1H 2017 was approximately RMB17.2 million (1H 2016: approximately RMB19.4 million).

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

Neither the Company nor any of its subsidiary has purchased, sold or redeemed any of the Company's listed securities during 1H 2017.



CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE

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 1H 2017, the Board comprised of three 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 1H 2017, 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 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. Although the management of the Company did not provide a regular monthly update to the members of the Board, the management keeps providing information and updates to the members of the Board as and when appropriate.

Code provision A.6.7 provides that non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Ms. Lo Wing Yan, Emmy, the ex-independent non-executive Director during FY2017, did not attend the annual general meeting of the Company held on 26 June 2017 due to other business commitments.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Directors have adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in dealing in the Company’s securities. Specific enquiries have been made to all Directors and all Directors have confirmed that they have fully complied with the required standard of dealings as set out in the Model Code during 1H 2017.



CORPORATE GOVERNANCE AND OTHER INFORMATION

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

The Company has an Audit Committee which was established in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee, comprising Ms. Wong Yan Ki, Angel, being chairman of Audit Committee, Mr. Hung Cho Sing and Mr. Chan Wai Wong, has reviewed the accounting principles and practices adopted by the Group and discussed with the management in respect to the financial reporting matters, including review of the unaudited interim results of the Group for the six months ended 30 June 2017, and is of the opinion that such statements comply with the applicable accounting standards and the Listing Rules and that adequate disclosures have been made.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for 1H 2017 (1H 2016: Nil).

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during 1H 2017.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirmed that the Company had maintained sufficient public float of more than 25% of the Company's issued share capital as required under the Listing Rules as of the date of this report.



CORPORATE GOVERNANCE AND OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2017, the interests or short positions of the Directors and the chief executive in the Company's shares (the "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 had 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 taken under such provisions of the SFO) or which would be required, pursuant to section 352 of Part XV of the SFO, to be recorded in the register referred to therein or which would be required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were 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 ⁽¹⁾	L ⁽⁴⁾	Interest in a controlled corporation	247,076,694	29.99%
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%

Notes:

- (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.



CORPORATE GOVERNANCE AND OTHER INFORMATION

- (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 in issue as at 30 June 2017, without taking into account of any Shares to be issued upon exercise of the options granted under the Pre-IPO Share Option Scheme or options which may be granted under the Share Option Scheme.

Save as disclosed above, as at 30 June 2017, none of the Directors or the chief executives of the Company or any of their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of Part XV 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

As at 30 June 2017, 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 Part XV of the SFO were as follows:

Name	Nature of interest	Capacity	Number of Shares	Approximate percentage of shareholding ⁽⁶⁾
Think Wise ⁽¹⁾	L ⁽⁴⁾	Beneficial owner	247,076,694	29.99%
Mr. Ding ⁽¹⁾	L ⁽⁴⁾	Interest in a controlled corporation	247,076,694	29.99%
Snowy Wise ⁽²⁾	L ⁽⁴⁾	Beneficial owner	42,240,000	5.13%
Ms. Ding Lizhen ⁽²⁾	L ⁽⁴⁾	Interest in a controlled corporation	42,240,000	5.13%
		Beneficial owner	800,000 ⁽⁵⁾	0.10%
Rightful Style ⁽³⁾	L ⁽⁴⁾	Beneficial owner	42,240,000	5.13%
Mr. Ding Peiyuan ⁽³⁾	L ⁽⁴⁾	Interest in a controlled corporation	42,240,000	5.13%
		Beneficial owner	800,000 ⁽⁵⁾	0.10%
Bright Oasis Investment Holdings Limited ⁽⁷⁾	L ⁽⁴⁾	Beneficial owner	164,800,000	20.0%
Mr. Li XiaoJun ⁽⁷⁾	L ⁽⁴⁾	Interest in a controlled corporation	164,800,000	20.0%



CORPORATE GOVERNANCE AND OTHER INFORMATION

Notes:

- (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) 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 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 in issue as at 30 June 2017 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.
- (7) Based on the notices of disclosures of interests of Bright Oasis Investment Holdings Limited and Mr. Li XiaoJun each filed with the Stock Exchange dated 23 June 2017, these interests are held by Bright Oasis Investment Holdings Limited, which is wholly owned by Mr. Li XiaoJun.

Save as disclosed above, as at 30 June 2017, the Company is not aware of any other person or corporation having 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 Part XV of the SFO.

DIRECTORS’ INTERESTS IN CONTRACTS

No contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director had a material interest, subsisted at 30 June 2017 or at any time during the period.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

There had been no contract of significance between the Company or any of its subsidiaries and the controlling shareholders (as defined in the Listing Rules) of the Company or any of its subsidiaries during the period.

EQUITY-SETTLED SHARE BASED PAYMENTS

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



CORPORATE GOVERNANCE AND OTHER INFORMATION

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, motivating our employees to optimize their performance and efficiency, and also retaining 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 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 15 January 2014, the date on which the Shares were listed on the Stock Exchange (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

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

Name	Number of Pre-IPO Share Options				As at 30 June 2017
	As at 1 January 2017	Granted during the period	Exercised during the period	Forfeited during the period	
Directors					
Mr. Ding Peiyuan	800,000	—	—	—	800,000
Ms. Ding Lizhen	800,000	—	—	—	800,000
Others					
In aggregate	1,900,000	—	—	100,000	1,800,000
Total	3,500,000	—	—	900,000	3,400,000

- (1) The calculation is based on the total number of 824,000,000 ordinary Shares of the Company in issue as at 30 June 2017, 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.



CORPORATE GOVERNANCE AND OTHER INFORMATION

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 directors 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 representing approximately 9.71% of the issued share capital of the Company as at the date of this report. Subject to the issue of a circular by the Company and the approval of the shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

- (i) renew this limit at any time to 10% of the shares in issue as at the date of the approval by the shareholders of the Company in general meeting; and/or
- (ii) grant options beyond the 10% limit to eligible participants specifically identified by the Board.

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

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 and 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.



CORPORATE GOVERNANCE AND OTHER INFORMATION

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

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

As at 30 June 2017, and up to the date of this report, no option had been granted under the Share Option Scheme.



UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Note	Six months ended 30 June	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Revenue	4	116,933	149,702
Cost of sales		(91,869)	(95,391)
Gross profit		25,064	54,311
Other revenue	6	334	3,594
Other net loss	6	(464)	(610)
Share of results from an associate		189	—
Impairment loss recognised on trade receivables		(25,399)	—
Selling and distribution expenses		(47,961)	(31,136)
Administrative and other operating expenses		(17,488)	(14,077)
(Loss)/profit from operations		(65,725)	12,082
Finance costs	7(a)	(1,423)	(1,432)
(Loss)/profit before taxation	7	(67,148)	10,650
Income tax	8	155	(9,469)
(Loss)/profit for the period attributable to shareholders of the Company		(66,993)	1,181
Other comprehensive income/(loss) for the period			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of operations outside mainland China		419	(166)
Total comprehensive (loss)/income for the period attributable to shareholders of the Company		(66,574)	1,015
(Loss)/earnings per share (RMB cents)			
— Basic and diluted	9	(8.1)	0.1

The notes on pages 28 to 44 form part of these unaudited interim condensed consolidated financial statements. Details of dividends payable to shareholders of the Company are set out in note 21(c).



UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Note	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	10	86,542	83,098
Intangible assets	11	51,750	61,782
Lease prepayments		2,721	2,765
Deposits for purchase of property, plant and equipment		25,611	27,470
Deposits for acquisition of distribution channels	12	39,417	—
Goodwill		26,736	26,736
Deferred tax assets		2,148	2,009
Investment in an associate	13	45,189	—
		280,114	203,860
Current assets			
Inventories	14	77,368	80,750
Trade receivables	15	262,032	314,965
Prepayments, deposits and other receivables	16	97,358	68,710
Fixed deposits at bank with original maturity over three months		—	201,300
Cash and cash equivalents	17	149,017	12,541
		585,775	678,266
Current liabilities			
Bank loans	18	57,300	49,300
Trade and other payables	19	36,059	33,225
		93,359	82,525
Net current assets		492,416	595,741
Total assets less current liabilities		772,530	799,601



UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Note	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
Non-current liabilities			
Deferred tax liabilities		3,535	1,300
Convertible bonds	20	25,871	—
		29,406	1,300
Net assets			
		743,124	798,301
Equity			
Share capital	21(a)	6,483	6,483
Reserves		736,641	791,818
Total equity			
		743,124	798,301

Approved and authorised for issue by the board of directors on 21 August 2017.

Ding Peiji
Director

Ding Peiyuan
Director

The accompanying notes on pages 28 to 44 form an integral part of these unaudited interim condensed consolidated financial statements.



UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Note	Share	Share	Share-Based	Capital	Convertible	Exchange	Statutory	Retained	Total
		capital	premium	payment	reserve	bond	reserve	reserve	profits	
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		21(a)	21(b)							
Balance at 1 January 2016										
(Audited)		6,483	246,825	5,712	145,549	—	9,529	58,134	470,968	943,200
Changes in equity for the six months ended 30 June 2016:										
Profit for the period		—	—	—	—	—	—	—	1,181	1,181
Other comprehensive income		—	—	—	—	—	(166)	—	—	(166)
Total comprehensive income		—	—	—	—	—	(166)	—	1,181	1,015
Equity-settled share-based transaction		—	—	409	—	—	—	—	—	409
Appropriation to statutory reserve		—	—	—	—	—	—	1,016	(1,016)	—
Balance at 30 June 2016										
(Unaudited)		6,483	246,825	6,121	145,549	—	9,363	59,150	471,133	944,624
Balance at 1 January 2017										
(Audited)		6,483	246,825	5,530	145,549	—	8,674	58,134	327,106	798,301
Changes in equity for the six months ended 30 June 2017:										
Loss for the period		—	—	—	—	—	—	—	(66,993)	(66,993)
Other comprehensive income		—	—	—	—	—	419	—	—	419
Total comprehensive income		—	—	—	—	—	419	—	(66,993)	(66,574)
Recognition of the equity component of convertible bonds		—	—	—	—	13,641	—	—	—	13,641
Recognition of deferred tax liabilities on convertible bonds		—	—	—	—	(2,251)	—	—	—	(2,251)
Equity-settled share-based transaction		—	—	7	—	—	—	—	—	7
Balance at 30 June 2017										
(Unaudited)		6,483	246,825	5,537	145,549	11,390	9,093	58,134	260,113	743,124

The accompanying notes on pages 28 to 44 form an integral part of these unaudited interim condensed consolidated financial statements.



UNAUDITED INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2017

	Note	Six months ended 30 June	
		2017 RMB'000	2016 RMB'000
Operating activities			
Cash generated from operations		(23,381)	(116,227)
Income tax paid		—	(14,809)
Net cash used in from operating activities		(23,381)	(131,036)
Investing activities			
Payment for the purchase of property, plant and equipment		(5,593)	(5,404)
Proceeds from refund deposits for purchase of property, plant and equipment		40	—
Receipts/(placement) of time deposits with original maturity of over three months when acquired		201,300	(300,000)
Withdrawn of pledged bank deposits		—	27,582
Net cash outflow for acquisition of distribution channels		—	(8,000)
Interest received	6	54	3,308
Capital injection of investment in an associate		(45,000)	—
Net cash generated from/(used in) investing activities		150,801	(282,514)
Financing activities			
Proceeds from bank loans		36,000	57,700
Repayment of bank loans		(28,000)	(60,114)
Net advance from related parties		2,388	2,397
Interest paid	7(a)	(1,328)	(1,432)
Net cash generated from/(used in) financing activities		9,060	(1,449)
Net increase/(decrease) in cash and cash equivalents		136,480	(414,999)
Cash and cash equivalents at 1 January		12,541	446,244
Effect of foreign exchange rate changes		(4)	(156)
Cash and cash equivalents at 30 June	17	149,017	31,089

The accompanying notes on pages 28 to 44 form an integral part of these unaudited interim condensed consolidated financial statements.



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1 GENERAL INFORMATION

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 period, the Group was 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 period.

The unaudited condensed consolidated interim financial information is presented in Renminbi ("**RMB**") unless otherwise stated.

These condensed consolidated interim financial statements have not been audited.

2 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("**IAS**") 34, *Interim financial reporting*, issued by the International Accounting Standards Board ("**IASB**"). The Board approved the unaudited interim results for issue on 21 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of any changes in accounting policies are set out in note 3.

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

The interim financial report contains unaudited condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2016 annual financial statements. The unaudited condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

The condensed consolidated interim financial statements have not been audited by the Company's independent auditors, but have been reviewed by the audit committee of the Company (the "**Audit Committee**").



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

2 BASIS OF PREPARATION (CONTINUED)

The financial information relating to the financial year ended 31 December 2016 that was included in the interim financial report as being previously reported information did not constitute the Company's statutory financial statements for that financial year but was derived from those financial statements. Statutory financial statements for the year ended 31 December 2016 were available from the Company's registered office. The auditors expressed an unqualified opinion on those financial statements in their report dated 30 March 2017.

3 CHANGES IN ACCOUNTING POLICIES

The IASB had issued a number of amendments to IFRSs. The application of the amendments to IFRSs in the current period had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these unaudited condensed consolidated interim financial statements.

4 REVENUE AND SEGMENT INFORMATION

The Group was principally engaged in the business of design, manufacture and sales of children's apparel products. Revenue represented 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	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from external customers	101,269	136,882	15,664	12,820	116,933	149,702
Inter-segment revenue	8,246	12,631	—	—	8,246	12,631
Reportable segment revenue	109,515	149,513	15,664	12,820	125,179	162,333
Segment results	(35,791)	12,834	(3,587)	226	(39,378)	13,060
Impairment loss recognised on trade receivables	(25,399)	—	—	—	(25,399)	—
Other revenue	1	—	—	—	1	1
Share of results from an associate	189	—	—	—	189	—
Central administration costs	(2,466)	—	—	—	(2,466)	(2,350)
Finance costs	(95)	—	—	—	(95)	(61)
(Loss)/profit before taxation					(67,148)	10,650

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

4 REVENUE AND SEGMENT INFORMATION (CONTINUED)

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, and central administrative costs including directors' remuneration and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and assessment of segment performance.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments.

	Wholesalers		Retail outlets		Total	
	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
Segment assets	754,697	772,640	110,522	82,886	865,219	855,526
Unallocated assets					670	26,600
Total assets					865,889	882,126
Segment liabilities	78,122	69,502	28,624	253	106,746	69,755
Unallocated liabilities					16,019	14,070
Total liabilities					122,765	83,825

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 whose roles are investment holding companies. Goodwill is allocated to reportable segments; and
- all liabilities are allocated to reportable segments other than liabilities held by the Company and its subsidiaries whose roles are investment holding companies.



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

4 REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities (Continued)

Geographical information:

During the period ended 30 June 2017 and 2016, the Group only operated in China and all of the Group's revenue is derived from China.

Information about major customers:

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

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Customer A	13,252	22,003
Customer B	15,818	16,279

5 SEASONALITY OF OPERATION

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

6 OTHER REVENUE AND OTHER NET LOSS

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Other revenue		
Interest income	54	3,308
Rental income	280	281
Others	—	5
	334	3,594
Other net loss		
Net foreign exchange loss	(6)	(610)
Loss on disposal on property, plant and equipment	(458)	—
	(464)	(610)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

7 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
(a) Finance costs:		
Interest on bank loans	1,328	1,432
Imputed interest on convertible bonds	95	—
	1,423	1,432
(b) Staff costs:		
Contributions to defined contribution retirement plans	1,326	1,617
Salaries, wages and other benefits	15,906	17,333
Equity-settled share-based payment expenses	7	409
	17,239	19,359
(c) Other items:		
Amortisation		
— lease prepayments	44	44
— intangible assets	10,033	6,533
Depreciation	3,509	3,576
Impairment loss recognised on trade receivable	25,399	—
Operating lease charges in respect of properties	81	773
Research and development expenses	5,614	2,319
Cost of inventories sold [#]	91,869	95,391

[#] Cost of inventories for the six months ended 30 June 2017 includes RMB6,464,000 (six months ended 30 June 2016: RMB6,709,000) relating to staff costs and depreciation, which amount is included in the respective total amounts disclosed separately in notes 7(b) and (c) above for each of these types of expenses.



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

8 INCOME TAX

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Current tax		
China corporate income tax	—	9,344
Deferred tax		
Origination of temporary differences	(155)	125
	(155)	9,469

- (i) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands (“**BVI**”), the Group is not subject to any income tax in the Cayman Islands or BVI;
- (ii) No provision was made for Hong Kong Profits Tax as the Group did not earn any assessable profit subject to Hong Kong Profits Tax for the six months ended 30 June 2016 and 2017;
- (iii) The applicable income tax rate for all of the Group’s subsidiaries in mainland China is 25%; and
- (iv) According to China Corporate Income Tax Law and its implementation rules, dividends receivable by non-China corporate residents from China 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 China 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 China subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

9 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss for the period attributable to shareholders of the Company of RMB66,993,000 (six months ended 30 June 2016: profit of RMB1,181,000) and the weighted average of 824,000,000 ordinary shares (six months ended 30 June 2016: 824,000,000 ordinary shares).

(b) Diluted (loss)/earnings per share

The effect of the Company's share options and convertible bonds was anti-dilutive for six months ended 30 June 2017 and 2016, and therefore, diluted (loss)/earnings per share are the same as the basic (loss)/earnings per share.

(i) (Loss)/profit attributable to ordinary equity shareholders of the Company (diluted):

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
(Loss)/profit attributable to ordinary equity shareholders	(66,993)	1,181
After tax effect of effective interest on the liability component of convertible bonds	80	—
(Loss)/profit attributable to ordinary equity shareholders (diluted)	(66,913)	1,181

(ii) Weighted average number of ordinary share (diluted):

	Six months ended 30 June	
	2017 '000 (Unaudited)	2016 '000 (Unaudited)
Weighted average number of ordinary shares at 30 June	824,000	824,000
Effect of conversion of convertible bonds	164,800	—
Weighted average number of ordinary shares (diluted) at 30 June	988,800	824,000



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

10 PROPERTY, PLANT AND EQUIPMENT

- (a) During the six months ended 30 June 2017, the Group acquired items of plant and machinery with cost of RMB2,152,000 (six months ended 30 June 2016: RMB6,742,000). No impairment loss was recognised during the six months ended 30 June 2017 and 2016.
- (b) Buildings with net book value of RMB38,486,000 as at 30 June 2017 (31 December 2016: RMB15,206,000) were pledged as collateral for the Group's bank loans.
- (c) At 30 June 2017, the application of the ownership certificates for buildings with net book value of RMB26,378,000 were in progress (31 December 2016: RMB27,338,000).
- (d) Lease prepayments with net book value of RMB2,723,000 as at 30 June 2017 (31 December 2016: RMB2,767,000) were pledged as collateral for the Group's bank loans.

11 INTANGIBLE ASSETS

The amortisation for the period is approximately RMB10,033,000 (six months ended 30 June 2016: RMB6,533,000) which is included in selling and distribution expenses and administrative and other operating expenses in the unaudited interim condensed consolidated statement of profit or loss and other comprehensive income.

12 DEPOSITS FOR ACQUISITION OF DISTRIBUTION CHANNELS

On 2 June 2017, a wholly-owned subsidiary of the Company, Quanzhou Tuoyu Trade Company Limited ("Quanzhou Tuoyu") entered into acquisition agreements with 成都佳尚服飾有限責任公司, to acquire its 53 distribution channels at a total consideration of RMB49,000,000. Pursuant to the acquisition agreement, the transfer of Distribution Channels shall take place in 2 phases. The first phase involved the transfer of certain distribution channels to Quanzhou Tuoyu, which had taken place in September 2017. The second phase would involve the transfer of the remaining distribution channels to Quanzhou Tuoyu, which shall take place on or before 31 December 2017. The consideration shall be satisfied by (i) RMB14,606,956 by way of cash; (ii) RMB34,393,044 by way of issuance of convertible bonds by the Company. Please refer to the Company's announcement dated 2 June 2017 for details.

On 23 June 2017, the completion of issue of the convertible bonds has taken place, the deposits represented the fair value of the convertible bonds at the initial date of the issuance of the convertible bonds (Note 20). Please refer to the Company's announcement dated 23 June 2017.



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

13 INVESTMENT IN AN ASSOCIATE

	As at 30 June 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
Acquisition of interests in an associate	45,000	—
Share of post-acquisition profits, net of dividend received	189	—
At end of the period/year	45,189	—

	As at 30 June 2017 RMB'000 (Unaudited)
Total assets	100,639
Total liabilities	219
Net assets of the associate	100,420
Group's share of net assets on assets	45,189
Revenue	2,083
Profit for the period	420
Share of results of an associate for the period	189

Details of the Group's investment in an associate, which is accounted for using the equity method in the financial statements, are as follows:

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest held				Particulars of issued paid-up capital	Principal activities
			As at 30 June 2017 (Unaudited)		As at 31 December 2016 (Audited)			
			direct	indirect	direct	indirect		
廈門兆年商業保理 有限公司	The People's Republic of China	Limited liability	—	45%	—	—	RMB100,000,000	Engage in commercial factoring business and provide credit facility, tender agency, liquidation and settlement services



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14 INVENTORIES

	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
Raw materials	3,608	3,459
Work in progress	2,501	1,862
Finished goods	71,259	75,429
	77,368	80,750

15 TRADE RECEIVABLES

	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
Trade receivables	295,208	322,742
Less: Allowance for doubtful debts	(33,176)	(7,777)
	262,032	314,965

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.

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

	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
Within 90 days	74,944	131,585
90–120 days	25,127	27,038
After 120 days but within 180 days	30,677	30,934
After 180 days but within 1 year	117,795	96,715
Over 1 year	13,489	28,693
	262,032	314,965



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15 TRADE RECEIVABLES (CONTINUED)

The ageing analysis of trade receivables that are not individually nor collectively considered to be impaired is as follows:

	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
Neither past due nor impaired	100,071	151,999
Past due but not impaired		
Less than 1 month past due	16,782	21,039
Over 1 month but within 3 months past due	13,895	16,300
Over 3 months past due	131,284	125,627
	262,032	314,965

Receivables that were neither past due nor impaired relate to a certain number of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to independent customers that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and these balances are still considered fully recoverable.

Impairment losses in respect of trade receivables are recorded using an allowance accounts unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. The movement in the allowance for bad and doubtful debts is as follows:

	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
At beginning of the period/year	7,777	—
Impairment loss for trade debts	25,399	7,777
At end of the period	33,176	7,777



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For the six months ended 30 June 2017

16 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
Prepayments to suppliers	46,439	25,446
Other tax recoverable	15,153	15,479
Other prepayments and receivables	35,766	27,785
	97,358	68,710

17 CASH AND CASH EQUIVALENTS

	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
Cash at bank and on hand	149,017	12,541

As at 30 June 2017, cash and cash equivalents, pledged bank deposits and fixed deposits at banks with original maturity over three months with an aggregate amount of RMB148,909,000 (31 December 2016: RMB213,101,000) 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.

18 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:

	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
Bank loans		
— secured	53,300	42,300
— unsecured	4,000	7,000
	57,300	49,300



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18 BANK LOANS (CONTINUED)

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

	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
Buildings held for own use (note 10(b))	38,486	15,206
Lease prepayments (note 10(d))	2,723	2,767
	41,209	17,973

Bank loans of RMB21,300,000 as at 30 June 2017 (31 December 2016: RMB21,300,000) were guaranteed by Mr. Ding Peiji (the Chairman of the Company) and a third party.

The bank loans comprise of:

	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
Fixed-rate bank loans	57,300	49,300

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

	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
Fixed-rate bank loans	4.785–6.3075%	5.31–5.87%

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

	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
RMB	57,300	49,300



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19 TRADE AND OTHER PAYABLES

	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
Trade payables	5,341	6,079
Receipts in advance	1,873	1,324
Amounts due to related parties	14,680	12,722
Other payables and accruals	14,165	13,100
	36,059	33,225

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

	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
Within 3 months	4,844	4,427
After 3 months but within 6 months	—	561
After 6 months but within 1 year	—	594
After 1 year	497	497
	5,341	6,079

20 CONVERTIBLE BONDS

On 23 June 2017, the Company issued convertible bonds with an aggregate principal amount of RMB34,393,044 (equivalent to HK\$39,552,000) which bore an interest rate of 4% per annum ("**Convertible Bonds**") as a part of consideration for acquisition of distribution channel (Note 12). The Convertible Bonds entitled the holder to convert them into ordinary shares at a conversion price of HK\$0.24 per ordinary share, at any time from 23 June 2017 to 23 June 2019.

The Convertible Bonds contain two components: liability and equity components. The equity element is presented in equity heading "equity component of Convertible Bonds". The effective interest rate of the liability component on the initial recognition was 20.49% per annum.



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For the six months ended 30 June 2017

20 CONVERTIBLE BONDS (CONTINUED)

The Convertible Bonds information are presented as follows:

Principal amount:

— as at 23 June 2016 RMB34,393,044
(Equivalent to HK\$39,552,000)

Interest:

4% p.a. payable semi-annually

Issue date:

23 June 2017

Maturity date:

23 June 2019

Conversion price per share:

HK\$0.24

The Convertible Bonds recognised in the statement of financial position were calculated as follows:

	Convertible Bonds RMB'000
Liability component	25,776
Equity component	13,641
Nominal value of Convertible Bonds on issue date	39,417
Liability component at date of issue (Unaudited)	25,776
Interest charged	115
Interest payable	(20)
At 30 June 2017 (Unaudited)	25,871



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For the six months ended 30 June 2017

21 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

Authorised and issued share capital

	2017			2016		
	No. of shares	HK\$'000	RMB'000 (Unaudited)	No. of shares	HK\$'000	RMB'000 (Audited)
Authorised:						
Ordinary shares of HK\$0.01 each	10,000,000	100,000	79,380	10,000,000,000	100,000	79,380
Ordinary shares, issued and fully paid:						
At 1 January, 30 June/ 31 December	824,000,000	8,240	6,483	824,000,000	8,240	6,483

(b) Share premium

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

(c) Dividends

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

22 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES CARRIED AT A VALUE OTHER THAN FAIR VALUE

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2017 and 31 December 2016.

23 CAPITAL COMMITMENTS CONTRACTED FOR BUT NOT PROVIDED FOR IN THE UNAUDITED INTERIM FINANCIAL REPORT

	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
Contracted for	22,135	7,708

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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24 MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the unaudited financial statements, the Group entered into the following material related party transactions during the six months ended 30 June 2017 and 2016.

(a) Amount due to a related party

During the six months ended 30 June 2017, the Group obtained interest-free loan of RMB14,680,000 (six months ended 30 June 2016: RMB10,096,000) from a shareholder of the Company. The shareholder is a company beneficially owned by Mr. Ding Weizhu, who is the father of the Chairman of the Group. The amount due to a related party is unsecured and is repayable on demand.

(b) Guarantee provided by a related party

Bank loans of RMB21,300,000 as at 30 June 2017 (31 December 2016: RMB21,300,000) were guaranteed by the Chairman of the Company (note 18).