MIKO INTERNATIONAL HOLDINGS LIMITED

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

Interim Report 2018

redkids
红孩儿

CONTENTS

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
Mr. Wu Shiming
(appointed on 16 July 2018)
Ms. Wong Yan Ki, Angel
(resigned on 16 July 2018)

Audit Committee

Mr. Wu Shiming *(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
Mr. Wu Shiming

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

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

INVESTOR RELATIONS CONTACT

Tel: (86) 595 2469 7165
Fax: (86) 595 2469 7299
Email: ir@redkids.com

WEBSITE

www.redkids.com

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET, BUSINESS AND OUTLOOK

For the six months ended 30 June 2018, revenue and net loss of our Group amounted to approximately RMB103.2 million and RMB65.9 million respectively, as compared to the revenue and net loss of approximately RMB116.9 million and RMB67.0 million respectively for the six months ended 30 June 2017.

The economy of Mainland China maintained a momentum of steady growth and the gross domestic product increased in the first half of 2018, at the same rate as the first half of 2017. At the same time, Mainland China continued to maintain a tight monetary policy, therefore the property and stock markets were adversely affected. Fears of the Sino-US trade war hindered consumer sentiment and retail market. As such, the retail growth of Mainland China decelerated to 9.4% in the first half of 2018 from 10.4% in the first half of 2017. Various downside risks factors remain evident, including political tensions, and sharp adjustments and changes in policies in Mainland China.

The children clothing industry faced a tough operating environment in the first six months of 2018. The industry brands were still undergoing further transformations in light of the prolonged market changes in order to improve its competitiveness. In addition to the challenges posed, the Group continued to face fierce competition from the opening of new shopping malls and increase in popularity of on-line and mobile shopping platforms. To cope with such circumstances, the Group has continued to improve the positioning of stores, products quality and products mix in the market in order to improve sales.

In the medium to long run, the economy of Mainland China is expected to continue growing while the demand in consumption would remain steady. While being cautiously optimistic about the overall market environment and prospects, the Group is still wary of the risks and challenges ahead, especially pressure from the increase in operating costs of distribution channels.

Looking forward, the management is confident of the Group's ability to achieve long-term sustainable growth, and reward shareholders with satisfactory return despite the fluctuation in market. The Group remains open to opportunities for investment that can lead to sustainable growth.

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

	As at 30 June 2018			As at 31 December 2017		
	Operated by distributors	Self-operated	Total	Operated by distributors	Self-operated	Total
Shopping mall outlets and concessions	**124**	**45**	**169**	138	49	187
Street shops	**135**	**43**	**178**	143	48	191
	259	**88**	**347**	281	97	378

	As at 30 June 2018			As at 31 December 2017		
	Operated by distributors	Self-operated	Total	Operated by distributors	Self-operated	Total
First-tier cities Note 1	**—**	**—**	**—**	—	—	—
Second-tier cities Note 1	**77**	**17**	**94**	78	18	96
Third-tier cities Note 1	**100**	**39**	**139**	117	45	162
Fourth-tier cities Note 1	**82**	**32**	**114**	86	34	120
	259	**88**	**347**	281	97	378

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 2018, there were 259 "redkids" branded retail stores operated by distributors and 88 self-operated stores in China.

The retail industry in China experienced a worsening retail climate, uncertainties of consumer sentiment and fierce competition during the first six months of 2018. Our Group's revenue was unavoidably affected by the challenging business and operating environment despite a progressive relaxation of the one-child policy in China. Coupled with a decrease in sales volume, 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 11.7%, from approximately RMB116.9 million for the six months ended 30 June 2017 ("**1H 2017**") to approximately RMB103.2 million for the six months ended 30 June 2018 ("**1H 2018**").

Sales to distributors continued to account for the majority of our Group's revenue during 1H 2018. Sales to distributors was approximately RMB85.4 million for 1H 2018, representing approximately 82.7% of our Group's revenue, as compared to that of approximately RMB94.7 million and 81.0% for 1H 2017.

Our Group generated sales revenue of RMB2.9 million in the 1H 2018 from our designated online distributors as compared to that of RMB6.6 million for 1H 2017.

For the apparel products segment, sales volume was approximately 2.8 million units for 1H 2018, representing an increase of approximately 40.0% as compared to that of approximately 2.0 million units for 1H 2017. The average wholesale selling price for 1H 2018 recorded a decrease as compared to that for 1H 2017, partially reflecting our change in product mix and sales clearance in 1H 2018.

For the footwear and accessories segment, sales increased from approximately RMB12.6 million for 1H 2017 to approximately RMB20.1 million for 1H 2018. The increase in sales from this segment is mainly due to the adjustment in the products sales category strategy in 1H 2018.

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

	1H 2018		1H 2017		% change
	RMB'000	**%**	RMB'000	%	
Apparel	**80,154**	**77.7**	104,339	89.2	(23.2)
Footwear and Accessories	**23,070**	**22.3**	12,594	10.8	83.2
	103,224	**100.0**	116,933	100.0	(11.7)

	1H 2018		1H 2017		% change
	RMB'000	%	RMB'000	%	
Sales to distributors	**85,356**	**82.7**	94,677	81.0	(9.8)
Sales from self-operated stores	**14,927**	**14.5**	15,664	13.4	(4.7)
Sales to on-line distributor	**2,941**	**2.8**	6,592	5.6	(55.4)
	103,224	**100.0**	116,933	100.0	(11.7)

Cost of Sales

Our cost of sales recorded a decrease from approximately RMB91.9 million for 1H 2017 to approximately RMB82.8 million for 1H 2018, which was broadly in line with the decrease in sales volume. Raw materials and manufacturing overhead costs remained stable during 1H 2018. 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 71.2% for 1H 2018, which was comparable to that of approximately 58.1% for 1H 2017.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit decreased from approximately RMB25.1 million for 1H 2017 to approximately RMB20.4 million for 1H 2018. Gross profit margin was approximately 19.8% for 1H 2018, representing a decrease of approximately 1.6 percentage points as compared to that of 21.4% for 1H 2017.

Other Revenue

During 1H 2018, our Group's other sources of revenue mainly included the interest income from bank deposits and interest income from loan to an associate amounting to approximately RMB1.7 million for 1H 2018 (1H 2017: approximately RMB0.05 million.)

Share of Results from an Associate

In 1H 2018, share of profit from an associate of the Group was RMB0.1 million (1H 2017: RMB0.2 million).

Impairment Loss Recognised on Trade Receivables

Impairment losses in respect of trade receivables of RMB23.2 million (1H2017: RMB25.4 million) are recorded due to decisions made by 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 RMB43.4 million for 1H 2018, representing a decrease of RMB4.6 million or about 9.6%, as compared to that of approximately RMB48.0 million for 1H 2017. The decrease in selling and distribution expenses was mainly due to decrease in the supporting arrangement in relation to the stores refurbishment plan to the distributors outlets recorded in 1H 2018. As a percentage of revenue, selling and distribution expenses was 42.0% for 1H 2018 (1H 2017: 41.0%).

Administrative and Other Operating Expenses

Administrative and other operating expenses were approximately RMB18.4 million for 1H 2018, representing an increase of approximately RMB0.9 million or about 5.1% as compared to that of RMB17.5 million for 1H 2017. The increase in the administrative and other operating expenses mainly reflected the increase in decoration expenses in 1H 2018. As for the percentage of revenue, it increased from 15.0% for 1H 2017 to 17.8% for 1H 2018.

Finance Costs

As a result of the increase in short-term bank borrowings and the issue of convertible bonds in the period under review, finance costs increased by approximately RMB 2.0 million, from approximately RMB 1.4 million for 1H 2017 to approximately RMB 3.4 million for 1H 2018.

Income Tax Expenses

Income tax expenses were approximately RMB0.003 million for 1H 2018, as compared to that of approximately RMB0.2 million for 1H 2017. The effective tax rate was approximately 0.2% and 0.2%, respectively, for 1H 2018 and 1H 2017.

Loss for the Period

As a result of the foregoing, loss for the period of approximately RMB65.9 million was recorded as compared to the loss for 1H 2017 of approximately RMB67.0 million.

WORKING CAPITAL MANAGEMENT

Our Group recorded net current assets of approximately RMB368.2 million with a current ratio of 4.3 times as of 30 June 2018, compared to that of approximately RMB418.4 million and 5.4 times as of 31 December 2017. 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 2018	As of 30 June 2017
Trade receivables	**377**	476
Inventories	**267**	118
Trade payables	**13**	11

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 RMB29.3 million as of 30 June 2018 (31 December 2017: approximately RMB109.0 million). Bank borrowings of our Group was approximately RMB62.3 million as of 30 June 2018, as compared to that of approximately RMB57.0 million as of 31 December 2017. Gearing ratio was only 10.0% and 8.7%, respectively, as of 30 June 2018 and 31 December 2017.

Our Group recorded an increase in net cash used in operating activities of approximately RMB77.0 million, from net cash used in operating activities approximately RMB23.4 million for 1H 2017 to net cash used in operating activities approximately RMB100.4 million for 1H 2018 which mainly represented the increases in inventories and prepayment to suppliers.

Net cash generated from investing activities was approximately RMB98.5 million for 1H 2018, as compared to the net cash used of approximately RMB150.8 million for 1H 2017 which mainly represented the net changes from fixed deposits and investment in an associate. Net cash generated from financing activities was approximately RMB29.7 million for 1H 2018, as compared to net cash used in financing activities of approximately RMB9.0 million for 1H 2017 which mainly represented a new bank loan raised.

As a result of the foregoing, there was a net increase in cash and cash equivalents of approximately RMB27.3 million for 1H 2018 (1H 2017: net increase approximately RMB136.5 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.

CAPITAL STRUCTURE AND FUND RAISING ACTIVITIES

Placing of Shares under General Mandate

On 9 February 2018, Think Wise Holdings Investment Company Limited ("**Think Wise**", a substantial Shareholder of the Company), the Company and Guotai Junan Securities (Hong Kong) Limited (the "**Placing Agent**") entered into a placing and subscription agreement (the "**Placing and subscription Agreement**") pursuant to which (i) Think Wise has agreed to appoint the Placing Agent and the Placing Agent has agreed to act as agent of Think Wise and use its best endeavors to procure not less than six placees for up to 160,000,000 existing Shares at HK$0.198 (the "**Top-up Placing**"); (ii) the placees and their ultimate beneficial owners shall not be connected person(s) of the Company; (iii) Think Wise has agreed to subscribe for up to 160,000,000 Top-up Subscription Shares at HK$0.198 (the "**Top-up Subscription**"). The Top-up Placing and Top-up Subscription were completed on 9 February 2018 and 20 February 2018, respectively, and the Company raised net proceeds of approximately HK$31.2 million. For details of the Top-up Placing and Top-up Subscription, please refer to the Company's announcements dated 9 February 2018 and 20 February 2018.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Contracted for	**7,528**	7,528

Our Group had no material contingent liabilities as of 30 June 2018.

PLEDGE OF ASSETS

Pledged bank deposits, certain properties and lease prepayments with net book value of approximately RMB39.3 million as at 30 June 2018 (31 December 2017: approximately RMB65.0 million) were pledged as collateral for our Group's bank loans.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Our Group made no other significant investments, material acquisitions or disposal for the six months ended 30 June 2018.

INVESTMENTS HELD IN FOREIGN CURRENCY AND HEDGING

For the six months ended 30 June 2018, 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.

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 2018, we employed around 430 full-time employees. The total staff costs for 1H 2018 was approximately RMB18.2 million (1H 2017: approximately RMB17.2 million).

CORPORATE GOVERNANCE CODE

The Company is committed to maintain a high standard of corporate governance and has steered its development and protected the interests of its shareholders in an enlightened and open manner. During 1H 2018, 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 2018, 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 separated 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 deviates 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 since, taking into account the background and experience of our Directors, it is adequately ensured by the current Board composition and structure.

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 provides information and updates to the members of the Board as and when it is appropriate.

MODEL CODE FOR SECURITIES TRANSACTIONS BY 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 2018.

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 of Mr. Wu Shiming, 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 with respect to financial reporting matters, including review of the unaudited interim results of the Group for the six months ended 30 June 2018, 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 2018 (1H 2017: 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 2018.

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 has 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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2018, 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	25.11%
Ms. Ding Lizhen(2)	L(4)	Interest in a controlled corporation	42,240,000	4.29%
		Beneficial owner	800,000(5)	0.08%
Mr. Ding Peiyuan(3)	L(4)	Interest in a controlled corporation	42,240,000	4.29%
		Beneficial owner	800,000(5)	0.08%

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.

(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 984,000,000 ordinary Shares in issue as at 30 June 2018, 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 2018, 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 2018, 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	25.11%
Mr. Ding[1]	L[4]	Interest in a controlled corporation	247,076,694	25.11%
Snowy Wise[2]	L[4]	Beneficial owner	42,240,000	4.29%
Ms. Ding Lizhen[2]	L[4]	Interest in a controlled corporation	42,240,000	4.29%
		Beneficial owner	800,000[5]	0.08%
Rightful Style[3]	L[4]	Beneficial owner	42,240,000	4.29%
Mr. Ding Peiyuan[3]	L[4]	Interest in a controlled corporation	42,240,000	4.29%
		Beneficial owner	800,000[5]	0.08%
Bright Oasis Investment Holdings Limited[7]	L[4]	Beneficial owner	164,800,000	16.75%
Mr. Li XiaoJun[7]	L[4]	Interest in a controlled corporation	164,800,000	16.75%

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 984,000,000 ordinary Shares in issue as at 30 June 2018 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 2018, 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 2018 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.

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.

	Number of Pre-IPO Share Options				
Name	**As at 1 January 2018**	**Granted during the period**	**Exercised during the period**	**Forfeited during the period**	**As at 30 June 2018**
Directors					
Mr. Ding Peiyuan	800,000	—	—	—	800,000
Ms. Ding Lizhen	800,000	—	—	—	800,000
Others					
In aggregate	1,800,000	—	—	—	1,800,000
Total	3,400,000	—	—	—	3,400,000

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 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 8.13% 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.

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 2018, 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 2018

	Notes	Six months ended 30 June 2018 RMB'000 (Unaudited)	 2017 RMB'000 (Unaudited)
Revenue	4	**103,224**	116,933
Cost of sales		**(82,776)**	(91,869)
Gross profit		**20,448**	25,064
Other revenue	6	**1,967**	334
Other net loss	6	**(47)**	(464)
Share of results from an associate		**130**	189
Impairment loss recognised on trade receivables		**(23,190)**	(25,399)
Selling and distribution expenses		**(43,371)**	(47,961)
Administrative and other operating expenses		**(18,410)**	(17,488)
Loss from operations		**(62,473)**	(65,725)
Finance costs	7(a)	**(3,448)**	(1,423)
Loss before taxation	7	**(65,921)**	(67,148)
Income tax	8	**3**	155
Loss for the period attributable to shareholders of the Company		**(65,918)**	(66,993)
Other comprehensive (loss)/income for the period			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of operations outside mainland China		**(454)**	419
Total comprehensive loss for the period attributable to shareholders of the Company		**(66,372)**	(66,574)
Loss per share (RMB cents)			
— Basic and diluted	9	**(7.4)**	(8.1)

The notes on pages 25 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 20(c).

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	10	**100,604**	95,312
Intangible assets	11	**53,121**	62,317
Lease prepayments		**2,636**	2,677
Deposits for purchase of property, plant and equipment		**1,485**	16,157
Goodwill		**44,383**	44,383
Deferred tax assets		**2,095**	2,092
Investment in an associate	12	**45,687**	45,557
		250,011	268,495
Current assets			
Inventories	13	**127,934**	105,762
Trade receivables	14	**188,171**	216,320
Prepayments, deposits and other receivables	15	**134,460**	82,183
Fixed deposits at bank with original maturity over three months		**—**	107,000
Cash and cash equivalents	16	**29,271**	1,972
		479,836	513,237
Current liabilities			
Bank loans	17	**62,250**	56,950
Trade and other payables	18	**19,600**	37,815
Current tax payables		**—**	61
Convertible bonds	19	**29,773**	—
		111,623	94,826
Net current assets		**368,213**	418,411
Total assets less current liabilities		**618,224**	686,906

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Non-current liabilities			
Deferred tax liabilities		**1,300**	1,300
Convertible bonds	19	**—**	27,825
		1,300	29,125
Net assets		**616,924**	657,781
Equity			
Share capital	20(a)	**7,833**	6,483
Reserves		**609,091**	651,298
Total equity		**616,924**	657,781

Approved and authorised for issue by the board of directors on 28 August 2018.

Ding Peiji
Director

Ding Peiyuan
Director

The accompanying notes on pages 25 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 2018

	Notes	Share capital RMB'000 20(a)	Share premium RMB'000 20(b)	Share-Based payment reserve RMB'000	Capital reserve RMB'000	Convertible bond reserve RMB'000	Exchange reserve RMB'000	Statutory reserve RMB'000	Retained profits RMB'000	Total RMB'000
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
Balance at 31 December 2017 (Audited)		6,483	246,825	5,327	145,549	13,641	9,776	58,134	172,046	657,781
Impact on initial application of IFRS 9		—	—	—	—	—	—	—	(1,215)	(1,215)
Adjusted balance at 1 January 2018		**6,483**	**246,825**	**5,327**	**145,549**	**13,641**	**9,776**	**58,134**	**170,831**	**656,566**
Changes in equity for the six months ended 30 June 2018:										
Loss for the period		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(65,918)**	**(65,918)**
Other comprehensive loss		**—**	**—**	**—**	**—**	**—**	**(454)**	**—**	**—**	**(454)**
Total comprehensive loss		**—**	**—**	**—**	**—**	**—**	**(454)**	**—**	**(65,918)**	**(66,372)**
Issue of ordinary shares		**1,350**	**25,743**	**—**	**—**	**—**	**—**	**—**	**—**	**27,093**
Less: Share issue expense		**—**	**(363)**	**—**	**—**	**—**	**—**	**—**	**—**	**(363)**
Balance at 30 June 2018 (Unaudited)		**7,833**	**272,205**	**5,327**	**145,549**	**13,641**	**9,322**	**58,134**	**104,913**	**616,924**

The accompanying notes on pages 25 to 44 form an integral part of these unaudited interim condensed consolidated financial statements.

UNAUDITED INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 RMB'000	2017 RMB'000
Operating activities			
Cash used in operations		**(100,425)**	(23,381)
Income tax paid		**(61)**	—
Net cash used in operating activities		**(100,486)**	(23,381)
Investing activities			
Payment for the purchase of property, plant and equipment		**(10,185)**	(5,593)
Proceeds from refund deposits for purchase of property, plant and equipment		**—**	40
Receipts of time deposits with original maturity of over three months when acquired		**107,000**	201,300
Interest received	6	**1,686**	54
Capital injection of investment in an associate		**—**	(45,000)
Net cash generated from investing activities		**98,501**	150,801
Financing activities			
Net proceed from issue of shares		**26,730**	—
Proceeds from bank loans		**57,800**	36,000
Repayment of bank loans		**(52,500)**	(28,000)
Net advance from related parities		**(812)**	2,388
Interest paid	7(a)	**(1,500)**	(1,328)
Net cash generated from financing activities		**29,718**	9,060
Net increase in cash and cash equivalents		**27,733**	136,480
Cash and cash equivalents at 1 January		**1,972**	12,541
Effect of foreign exchange rate changes		**(434)**	(4)
Cash and cash equivalents at 30 June	16	**29,271**	149,017

The accompanying notes on pages 25 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 2018

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 28 August 2018.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the adoption of new standards and amendments to existing standards as 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 the understanding of the changes in financial position and performance of the Group since the 2017 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**").

2 BASIS OF PREPARATION (CONTINUED)

The financial information relating to the financial year ended 31 December 2017 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2017 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 13 March 2018.

3 CHANGES IN ACCOUNTING POLICIES

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

IFRS 9, *Financial instruments*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the adoption of new and amendments to IFRSs as of 1 January 2018.

The Group has been affected by IFRS 9 in relation to classification of financial assets and measurement of credit losses. Details of the changes in accounting policies are discussed in note 3(a) for IFRS 9.

Under the transition methods chosen, the Group recognises the cumulative effect of the initial application of IFRS 9 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been affected by IFRS 9.

	At 31 December 2017	**Impact on initial application of IFRS 9** (Note 3(c))	**At 1 January 2018**
	RMB'000	RMB'000	**RMB'000**
Trade receivables	216,320	(1,215)	**215,105**
Reserves	(651,298)	1,215	**(650,083)**

Further details of these changes are set out in subsection (b) of this note.

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IFRS 9, *Financial instruments* (Continued)

(a) Impacts and changes in accounting policies of application on IFRS 9 "Financial Instruments"

In the current period, the Group has applied IFRS 9 "Financial Instruments" and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("**ECL**") for financial assets and (3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognized as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognized as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognized in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 "Financial Instruments: Recognition and Measurement".

(b) Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial assets and financial liabilities

IFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("**FVOCI**") and at fair value through profit or loss ("**FVPL**"). These supersede IAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The measurement categories and carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of IFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IFRS 9, *Financial instruments* (Continued)

(b) Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade receivables). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are made based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables within the scope of IFRS 15. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread or the credit default swap prices for the debtor;

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IFRS 9, Financial instruments (Continued)

(b) Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Significant increase in credit risk (Continued)

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk of financial assets except trade receivables has increased significantly since initial recognition when contractual payments are more than 60 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument except trade receivables is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9.

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IFRS 9, Financial instruments (Continued)

(b) Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Measurement and recognition of ECL (Continued)

This includes information about past events, current conditions and forecasts of future economic conditions. The results of the assessment and the impact thereof are detailed below.

(c) Summary of effects arising from initial application of IFRS 9

Below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

Impairment under ECL model

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

Loss allowances for trade receivables is always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

As at 1 January 2018, the additional credit loss allowance of RMB$1,214,965 has been recognized against retained profits. The additional loss allowance is charged against the trade receivables.

The loss allowances for trade receivables as at 31 December 2017 reconcile to the opening balances of trade receivables as at 1 January 2018 is as follows:

	Trade receivables RMB'000
At 31 December 2017 (Audited)	
— IAS 39	52,959
Amounts re-measured through opening retained profits	1,215
At 1 January 2018 (Unaudited)	54,174

4 REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the business of design, manufacture and sales of children's apparel products. Revenue 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 Six months ended 30 June		Retail outlets Six months ended 30 June		Total Six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	**2018 RMB'000 (Unaudited)**	2017 RMB'000 (Unaudited)	**2018 RMB'000 (Unaudited)**	2017 RMB'000 (Unaudited)
Revenue from external customers	**88,297**	101,269	**14,927**	15,664	**103,224**	116,933
Inter-segment revenue	**30,797**	8,246	**—**	—	**30,797**	8,246
Reportable segment revenue	**119,094**	109,515	**14,927**	15,664	**134,021**	125,179
Segment results	**(29,923)**	(35,791)	**(9,489)**	(3,587)	**(39,412)**	(39,378)
Impairment loss recognised on trade receivables	**(23,190)**	(25,399)	**—**	—	**(23,190)**	(25,399)
Other revenue					**1,967**	1
Share of results from an associate					**130**	189
Central administration costs					**(1,968)**	(2,466)
Finance costs					**(3,448)**	(95)
Loss before taxation					**(65,921)**	(67,148)

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.

4 REVENUE AND SEGMENT INFORMATION (CONTINUED)

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 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)	**At 30 June 2018 RMB'000 (Unaudited)**	At 31 December 2017 RMB'000 (Audited)	**At 30 June 2018 RMB'000 (Unaudited)**	At 31 December 2017 RMB'000 (Audited)
Segment assets	**614,105**	624,544	**111,550**	111,481	**725,655**	736,025
Unallocated assets					**4,192**	45,707
Total assets					**729,847**	781,732
Segment liabilities	**78,888**	75,199	**1,674**	1,053	**80,562**	76,252
Unallocated liabilities					**32,361**	47,699
Total liabilities					**112,923**	123,951

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 or its subsidiaries as an investment holding company. Goodwill is allocated to reportable segments; and

— all liabilities are allocated to reportable segments other than liabilities held by the Company or its subsidiaries as an investment holding company.

Geographical information:

During the period ended 30 June 2018 and 2017, the Group only operated in China and all of the Group's revenue are derived from China.

4 REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities (Continued)

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	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Customer A	**20,157**	—
Customer B*	**—**	13,252
Customer C*	**—**	15,818

* 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 period ended 30 June 2018.

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	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Other revenue		
Interest income	**1,686**	54
Rental income	**281**	280
	1,967	334
Other net loss		
Net foreign exchange loss	**(47)**	(6)
Loss on disposal on property, plant and equipment	**—**	(458)
	(47)	(464)

7 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(a) Finance costs:		
Interest on bank loans	**1,500**	1,328
Imputed interest on convertible bonds	**1,948**	95
	3,448	1,423
(b) Staff costs:		
Contributions to defined contribution retirement plans	**1,375**	1,326
Salaries, wages and other benefits	**16,859**	15,906
Equity-settled share-based payment expenses	**—**	7
	18,234	17,239
(c) Other items:		
Amortisation		
— lease prepayments	**41**	44
— intangible assets	**9,196**	10,033
Depreciation	**4,073**	3,509
Loss on disposal on property, plant and equipment	**840**	—
Impairment loss recognised on trade receivables	**23,190**	25,399
Operating lease charges in respect of properties	**78**	81
Research and development expenses	**1,549**	5,614
Cost of inventories sold#	**82,776**	91,869

Cost of inventories for the six months ended 30 June 2018 includes RMB5,436,000 (six months ended 30 June 2017: RMB6,464,000) 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.

8 INCOME TAX

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax		
— PRC corporate income tax	**—**	—
Deferred tax		
Origination of temporary differences	**(3)**	(155)
	(3)	(155)

(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 2017 and 2018;

(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.

9 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss for the period attributable to shareholders of the Company of RMB65,918,000 (six months ended 30 June 2017: loss of RMB66,993,000) and the weighted average of 887,646,000 ordinary shares (six months ended 30 June 2017: 824,000,000 ordinary shares).

(b) Diluted loss per share

The effect of the Company's share options and convertible bonds was anti-dilutive for six months ended 30 June 2018 and 2017, and therefore, diluted loss per share are the same as the basic loss per share.

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Loss attributable to ordinary equity shareholders	**(65,918)**	(66,993)
After tax effect of effective interest on the liability component of convertible bonds	**1,626**	80
Loss attributable to ordinary equity shareholders (diluted)	**(64,292)**	(66,913)

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

	Six months ended 30 June	
	2018	2017
	'000	'000
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares at 30 June	**887,646**	824,000
Effect of conversion of convertible bonds	**164,800**	164,800
Weighted average number of ordinary shares (diluted) at 30 June	**1,052,446**	988,800

10 PROPERTY, PLANT AND EQUIPMENT

(a) During the six months ended 30 June 2018, the Group acquired items of plant and machinery with cost of RMB2,367,000 (six months ended 30 June 2017: RMB2,152,000). No impairment loss was recognised during the six months ended 30 June 2018 and 2017.

(b) Buildings with net book value of RMB37,626,000 as at 30 June 2018 (31 December 2017: RMB63,328,000) were pledged as collateral for the Group's bank loans.

(c) Lease prepayments with net book value of RMB1,651,000 as at 30 June 2018 (31 December 2017: RMB1,678,000) were pledged as collateral for the Group's bank loans.

11 INTANGIBLE ASSETS

The amortisation for the period is approximately RMB9,196,000 (six months ended 30 June 2017: RMB10,033,000) 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 INVESTMENT IN AN ASSOCIATE

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Acquisition of interests in an associate	**45,000**	45,000
Share of post-acquisition profits, net of dividend received	**687**	557
At end of the period/year	**45,687**	45,557

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 2018 (Unaudited)		As at 31 December 2017 (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%**	—	45%	RMB100,000,000	Engage in commercial factoring business and provide credit facility, tender agency, liquidation and settlement services

13 INVENTORIES

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Raw materials	**2,511**	3,508
Work in progress	**3,889**	3,121
Finished goods	**121,534**	99,133
	127,934	105,762

14 TRADE RECEIVABLES

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Trade receivables	**265,266**	269,279
Less: Loss allowance provision	**(77,095)**	(52,959)
	188,171	216,320

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:

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Within 90 days	**58,852**	106,993
After 90 days but within 120 days	**9,302**	24,652
After 120 days but within 180 days	**19,978**	30,078
After 180 days but within 1 year	**90,381**	48,123
Over 1 year	**9,658**	6,474
	188,171	216,320

14 TRADE RECEIVABLES (CONTINUED)

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

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Neither past due nor impaired	**68,154**	131,645
Past due but not impaired		
Less than 1 month past due	**3,612**	14,246
Over 1 month but within 3 months past due	**16,366**	15,832
Over 3 months past due	**100,039**	54,597
	188,171	216,320

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.

15 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Prepayments to suppliers	**38,684**	23,513
Other tax recoverable	**18,464**	16,610
Other prepayments and receivables (Note)	**77,312**	42,060
	134,460	82,183

Note: The amount included loan to an associate amounting to RMB30,000,000. The loan is unsecured, bear fixed interest rate of 10% per annum and repayable within one year.

16 CASH AND CASH EQUIVALENTS

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Cash at bank and on hand	**29,271**	1,972

As at 30 June 2018, cash and cash equivalents, pledged bank deposits and fixed deposits at banks with original maturity over three months with an aggregate amount of RMB25,020,000 (31 December 2017: RMB108,780,000) 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.

17 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:

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Bank loans		
— secured	**62,250**	52,950
— unsecured	**—**	4,000
	62,250	56,950

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

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Buildings held for own use (note 10(b))	**37,626**	63,328
Lease prepayments (note 10(d))	**1,651**	1,678
	39,277	65,006

Bank loans of RMB62,250,000 as at 30 June 2018 (31 December 2017: RMB24,500,000) were guaranteed by the directors of the Company and a third party which are included in secured bank loans.

17 BANK LOANS (CONTINUED)

The bank loans comprise of:

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Fixed-rate bank loans	**62,250**	56,950

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

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Fixed-rate bank loans	**4.79–6.74%**	4.79–6.31%

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

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
RMB	**62,250**	56,950

18 TRADE AND OTHER PAYABLES

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Trade payables	**4,627**	6,695
Receipts in advance	**458**	468
Amounts due to related parties	**—**	16,657
Other payables and accruals	**14,515**	13,995
	19,600	37,815

18 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:

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Within 3 months	**4,130**	6,198
After 3 months but within 6 months	**—**	—
After 6 months but within 1 year	**—**	—
After 1 year	**497**	497
	4,627	6,695

19 CONVERTIBLE BONDS

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

	Convertible Bonds RMB'000
Liability component	25,778
Equity component	13,641
Nominal value of Convertible Bonds on issue date	39,419
Liability component at date of issue (Unaudited)	25,778
Interest charge	2,771
Interest payable	(724)
At 31 December 2017 and 1 January 2018 (Audited)	27,825
Interest charged	2,628
Interest payable	(680)
At 30 June 2018 (Unaudited)	29,773

20 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

Authorised and issued share capital

	2018			2017		
	No. of shares	**HK$'000**	**RMB'000 (Unaudited)**	No. of shares	HK$'000	RMB'000 (Audited)
Authorised:						
Ordinary shares of HK$0.01 each	**10,000,000,000**	**100,000**	**79,380**	10,000,000,000	100,000	79,380
Ordinary shares, issued and fully paid:						
At beginning of the period/year	**824,000,000**	**8,240**	**6,483**	842,000,000	8,240	6,483
Issue of ordinary shares by placing (Note)	**160,000,000**	**1,600**	**1,350**	—	—	—
At end of the period/year	**984,000,000**	**9,840**	**7,833**	842,000,000	8,240	6,483

Note:

On 9 February 2018, Think Wise Holdings Investment Company Limited ("**Think Wise**", a substantial Shareholder of the Company), the Company and Guotai Junan Securities (Hong Kong) Limited (the "**Placing Agent**") entered into a placing and subscription agreement (the "**Placing and subscription Agreement**") pursuant to which (i) Think Wise has agreed to appoint the Placing Agent and the Placing Agent has agreed to act as agent of Think Wise and use its best endeavors to procure not less than six placees for up to 160,000,000 existing Shares at HK$0.198 (the "**Top-up Placing**"); (ii) the placees and their ultimate beneficial owners shall not be connected person(s) of the Company; (iii) Think Wise has agreed to subscribe for up to 160,000,000 Top-up Subscription Shares at HK$0.198 (the "**Top-up Subscription**"). The Top-up Placing and Top-up Subscription were completed on 9 February 2018 and 20 February 2018, respectively, and the Company raised net proceeds of approximately HK$31.2 million. For details of the Top-up Placing and Top-up Subscription, please refer to the Company's announcements dated 9 February 2018 and 20 February 2018.

(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 payment of any interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

21 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 2018 and 31 December 2017.

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

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Contracted for	**7,528**	7,528

23 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 2018 and 2017.

(a) Guarantee provided by a related party

Secured bank loans of RMB62,250,000 as at 30 June 2018 (31 December 2017: RMB24,500,000) were guaranteed by Mr. Ding Peiji (note 17).

(b) Loan to an associate

During the six months ended 30 June 2018, the Group entered into a loan agreement with an associate amounting to RMB30,000,000. The loan is unsecured, bear fixed interest rate of 10% per annum and repayable within one year (note 15).

(c) Amount due to a related party

During the six months ended 30 June 2017, the Group obtained interest-free loan of RMB14,680,000 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 was unsecured and was repayable on demand.