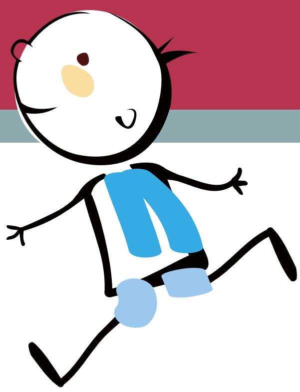
MIKO INTERNATIONAL HOLDINGS LIMITED

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

Annual Report 2018


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
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

CORPORATE INFORMATION

AUTHORISED REPRESENTATIVES

Mr. Ding Peiji
Mr. Pang Wing Hong

JOINT COMPANY SECRETARIES

Mr. Pang Wing Hong
Ms. Lu Yanping

REGISTERED OFFICE

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

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Quanzhou City
Fujian Province 362000
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Mong Kok, Kowloon
Hong Kong

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

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Royal Bank House
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24 Shedden Road, P.O. Box 1586
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Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
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Wanchai
Hong Kong

AUDITORS

HLB Hodgson Impey Cheng Limited

LEGAL ADVISERS AS TO HONG KONG LAW

Stevenson, Wong & Co

INVESTOR RELATIONS CONTACT

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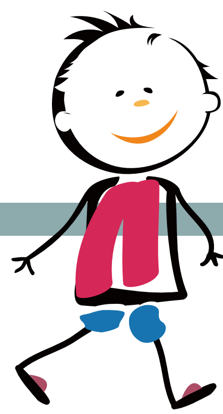

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors of the Company (the "**Board**"), I hereby present our full-year results for the year ended 31 December 2018. For the full year of 2018, revenue and net loss of our Group amounted to approximately RMB214.4 million and RMB201.5 million respectively, as compared to revenue and net loss of approximately RMB334.7 million and RMB155.3 million respectively for the full year of 2017.

The economy of Mainland China remains resilient even though overall GDP growth is predicted to be moderate in the year. Fears of the Sino-United States trade war hindered consumer sentiment and retail market in Mainland China. The retail growth was weak continuously and various downside risks include political tensions, sharp adjustments and changes in policies in Mainland China. As such, the economy of Mainland China was still facing downward pressure going forward.

The slowdown in the demand in domestic children apparel industry and the change in the consumption pattern of the customers posed a negative impact to the traditional retail stores. The children clothing industry faced a tough operating environment including but not limited to the fierce competition from the opening of new shopping malls and increase in popularity of on-line and mobile shopping platforms for the year. The industry brands consolidation and transformations are still undergoing in the future. Our Group continuously reviewed the performance of our physical retail stores periodically in view of the current retail market and closed down some under-performing stores during the year of 2018.

In summary, faced with the macro-economic uncertainty brought by the Sino-United States trade war and micro-economic of Mainland China market, the Group will be examining its development strategy more carefully and will endeavor to control costs in order to cope with the different challenges in the market. In the medium to long term, the Group remains cautiously optimistic about its business and believes that it will bring satisfactory and sustainable returns to the shareholders. The Group remains open to the opportunities for investment that can lead to sustainable growth going forward.

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

	As at 31 December 2018			As at 31 December 2017		
	Operated by distributors	**Self-operated**	**Total**	Operated by distributors	Self-operated	Total
Shopping mall outlets and concessions	**96**	**41**	**137**	138	49	187
Street shops	**113**	**33**	**146**	143	48	191
	209	**74**	**283**	281	97	378

	As at 31 December 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	**69**	**16**	**85**	78	18	96
Third-tier cities Note 1	**67**	**33**	**100**	117	45	162
Fourth-tier cities Note 1	**73**	**25**	**98**	86	34	120
	209	**74**	**283**	281	97	378

Note 1:

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

Ding Peiji
Chairman of the Board

8 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

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 the Mainland China. As at 31 December 2018, there were 209 "redkids" branded retail stores operated by our distributors and 74 self-operated stores in the Mainland China.

The retail industry experienced a declining retail climate, uncertainty of consumer sentiment, and fierce competition in China for the year of 2018. Our Group's revenue was unavoidably affected by this challenging business environment despite a progressive relaxation of the one-child policy and increasing trend of GDP in the Mainland China. Coupled with a slow-down of orders received from our distributors and self-operated stores, our Group's revenue recorded a decrease of about 35.9%, from approximately RMB334.7 million for FY2017 to approximately RMB214.4 million for FY2018.

Sales to distributors continued to account for the majority of our Group's revenue during FY2018. Sales to distributors were approximately RMB141.8 million for FY2018, representing approximately 66.1% of our Group's revenue, as compared to that of approximately RMB268.7 million or 80.3% for FY2017.

Sales to our designated on-line distributor, who resells our products through different online sales platforms in the Mainland China, were approximately RMB0.9 million for FY2018 owing to the undergoing changes by the distributor as compared to approximately RMB23.2 million for FY2017.

Sales from self-operated stores were approximately RMB71.8 million for FY2018, representing 33.5% of our Group's revenue, as compared to that of approximately RMB40.0 million or 11.9% for FY2017.

Sales from the apparel products segment continued to account for the majority of our Group's revenue during FY2018. Sales were approximately RMB179.3 million for FY2018, representing 83.6% of our Group's revenue, as compared to that of approximately RMB272.4 million or 81.3% for FY2017.

For the footwear and accessories segment, sales decreased from approximately RMB59.5 million for FY2017 to approximately RMB35.1 million for FY2018.

The decrease in sales from the two segments is mainly due to the impact from the weak demand in the market.

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

	FY2018	FY2017	% change
Sales volume (million units)	**5.5**	7.5	(26.7)
Average wholesale price (RMB)	**39**	44	(11.4)

MANAGEMENT DISCUSSION AND ANALYSIS

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

	FY2018		FY2017		% change
	RMB'000	**%**	RMB'000	%	
Apparel	**179,348**	**83.6**	272,404	81.3	(34.2)
Footwear and Accessories	**35,087**	**16.4**	59,471	17.8	(41.0)
OEM services	**–**	**–**	2,866	0.9	–
	214,435	**100.0**	334,741	100.0	(35.9)

We primarily market our products through the extensive retail network with 283 retail outlets covering most of the provinces and municipalities in the Mainland China operated by our distributors and self-operated stores.

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

	FY2018		FY2017		% change
	RMB'000	**%**	RMB'000	%	
Sales to distributors	**141,818**	**66.1**	268,680	80.3	(47.2)
Sales to on-line distributor	**809**	**0.4**	23,196	6.9	(96.5)
Sales from self-operated stores	**71,808**	**33.5**	39,999	11.9	79.5
OEM services	**–**	**–**	2,866	0.9	–
	214,435	**100.0**	334,741	100.0	(35.9)

Cost of Sales

Our cost of sales decreased by approximately RMB92.4 million or approximately 34.5%, from RMB268.2 million for FY2017 to approximately RMB175.8 million for FY2018. The decrease was generally in line with the decrease in turnover and margin. During FY2018, we continued to outsource the production of products which requires special technologies and know-how to OEM factories. As a percentage of cost of sales, purchase from OEM factories accounted for approximately 69.7% for FY2018 as compared to that of approximately 88.9% for FY2017.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit decreased by approximately RMB27.9million or approximately 41.9%, from approximately RMB66.6 million for FY2017 to RMB38.7 million for FY2018. Gross profit margin decreased by 1.9%, from 19.9% for FY2017 to 18.0% for FY2018, mainly as a result of the deterioration of margin sold at the stores in FY2018.

Other Revenue and Other Net (Loss)/Gain

Other revenue primarily consisted of interest income from bank deposits of approximately RMB1.9 million (FY2017: approximately RMB1.0 million) and rental income of approximately RMB0.6 million (FY2017: RMB0.6 million).

Other net (loss)/gain represented the net foreign exchange loss of approximately RMB0.05 million (FY2017: net gain of approximately RMB0.04 million).

Share of Results from an Associate

In FY2018, share of profit from an associate of the Group was RMB0.9 million (FY2017: RMB0.6 million).

Impairment Loss Recognised on Trade Receivables

Impairment losses in respect of trade receivables of RMB8.1 million (FY2017: RMB55.1 million) are recorded due to the management of the Company 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.

Impairment loss recognised on goodwill

Due to the recession of consumable market in the Mainland China, the retail outlets business had suffered an operating loss during the year. The Directors believe that the recoverable amount of the CGU as at 31 December 2018 is lower than the carrying amount of the CGU. As such, impairment loss on goodwill of approximately RMB16.7 million (2017: RMB16.2 million) was recognised.

Selling and Distribution Expenses

Selling and distribution expenses primarily consisted of marketing rebates, salaries and benefits for sales and marketing personnel, and advertising and exhibition expenses for outdoor advertisements. Selling and distribution expenses recorded an increase of approximately 33.5%, from approximately RMB96.1 million for FY2017 to approximately RMB128.3 million for FY2018. The increase resulted from more advertisement and marketing to promote the brands in the market.

As a percentage of turnover, selling and distribution expenses were 28.7% and 59.9% for FY2017 and FY2018 respectively.

Administrative and Other Operating Expenses

Administrative and other operating expenses primarily consisted of R&D expenses, salaries and benefits for administrative personnel, professional expenses in relation to legal and financial advisory services, taxes and levies and bad debts written off on trade receivables.

Administrative and other operating expenses were approximately RMB57.4 million for FY2018, representing an increase of approximately RMB21.2 million or an increase of approximately 58.6% as compared to approximately RMB36.2 million for FY2017.

As a percentage of turnover, administrative and other operating expenses were 10.8% and 26.8% for FY2017 and FY2018 respectively.

Finance Costs

As a result of the increase in short-term bank borrowings and issuing of convertible bonds in the year of 2017, finance costs increased by approximately RMB2.7 million, from approximately RMB4.9 million for FY2017 to approximately RMB7.6 million for FY2018.

Income Tax Expenses

Income tax expenses changed from credit of approximately RMB0.016 million for FY2017 to debit of approximately RMB0.2 million for FY2018. The effective tax rate was 0.09% for FY2018, which was comparable to 0.01% for FY2017. Currently, our principal subsidiaries in the Mainland China are subject to an enterprise income tax rate of 25%.

Loss for the Year before Taxation

As a result of the foregoing, loss before taxation for FY2018 approximately RMB201.5 million was recorded as compared to the FY2017 approximately RMB155.3 million.

Working Capital Management

We possess sufficient cash to meet liquidity requirements and for strategic alliances and acquisitions, if any. As of 31 December 2018, our cash and cash equivalents, and bank deposits totaled approximately RMB43.6 million (31 December 2017: approximately RMB109.0 million), representing more than 11.7% (31 December 2017: 21.2%) of the total amount of our current assets.

Current ratio and quick ratio were 3.4 times and 2.8 times, respectively, as at 31 December 2018, as compared to 5.4 times and 4.3 times, respectively, as at 31 December 2017.

Inventories

Our inventories decreased by approximately RMB36.4 million, from approximately RMB105.8 million as of 31 December 2017 to approximately RMB69.4 million as at 31 December 2018. Inventories mainly comprised raw materials of approximately RMB1.1 million (31 December 2017: approximately RMB3.5 million), work in progress of approximately RMB1.1 million (31 December 2017: approximately RMB3.1 million) and finished goods of approximately RMB67.2 million (31 December 2017: approximately RMB99.2 million). The inventory turnover was 182 days for FY2018 (FY2017: 127 days).

A write down on inventories of RMB25.4 million (2017: RMB25.5 million) is recorded due to allowance made for obsolete and slow-moving inventory items as the net realisable value for such inventories based primarily on the estimated subsequent selling prices and salability of inventories.

Trade Receivables

Trade receivables decreased by approximately RMB76.5 million, from approximately RMB216.3 million as of 31 December 2017 to approximately RMB139.8 million as of 31 December 2018.

Trade receivables turnover was 303 days for FY2018, (FY2017: 290 days).

Impairment losses in respect of trade receivables of RMB8.1 million (2017: RMB55.1 million) are recorded due to the management of the Company 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.

Trade Payables

Trade payables decreased from approximately RMB6.7 million as of 31 December 2017 to approximately RMB1.2 million as of 31 December 2018. Trade payables turnover was 8.2 days for FY2018 (FY2017: 9 days).

LIQUIDITY AND FINANCIAL RESOURCES

The following table sets forth our cash flows for FY2018 and FY2017:

	FY2018 RMB'000	FY2017 RMB'000
Net cash used in operating activities	**(73,268)**	(51,262)
Net cash generated from investing activities	**63,804**	28,669
Net cash generated from financing activities	**11,664**	9,831
Net increase/(decrease) in cash and cash equivalents	**2,200**	(12,762)
Cash and cash equivalents at 1 January	**1,972**	12,541
Effect of foreign exchange rate changes	**(617)**	2,193
Cash and cash equivalents at 31 December	**3,555**	1,972

We were in net cash position as of 31 December 2018, and our gearing ratio was 19.4% as of 31 December 2018 (31 December 2017: 8.7%).

Notes to financial ratios

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

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

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

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

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

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

FINANCIAL RISK MANAGEMENT

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

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

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

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

As of 31 December 2018, capital expenditure contracted but not provided for was approximately RMB7.5 million (31 December 2017: approximately RMB7.5 million).

CONTINGENT LIABILITIES

Our Group did not have any significant contingent liabilities as of 31 December 2018 and 2017.

PLEDGE OF ASSETS

As of 31 December 2018, certain properties and lease prepayments totalled approximately RMB66.6 million (31 December 2017: approximately RMB65.0 million) were pledged for certain bank loans.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Our Group made no significant investments, material acquisitions or disposal during the year ended 31 December 2018.

INVESTMENTS HELD IN FOREIGN CURRENCY AND HEDGING

For FY2018, 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 31 December 2018, we employed around 370 full-time employees. The total staff costs for FY2018 was approximately RMB36.1 million (FY2017: approximately RMB34.5 million).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OVERVIEW

Entities: Miko International Holdings Limited (the "**Company**"), together with its subsidiaries (the "**Group**").

Period: Year Ended 31 December 2018

Objective: The Group is committed to being an excellent corporate. Pursuant to Appendix 27 of the Environmental, Social and Governance ("**ESG**") Reporting Guide (the "**ESG Guide**") regarding the Rules Governing the Listing of Equity Securities on the Main Board of The Stock Exchange of Hong Kong Limited ("**HKEx**"), the Group is obligated to review, identify and disclose relevant information required in the ESG Guide which is considered to be material to the investors and other stakeholders in the opinion of the Board of Directors. The Group has introduced measures and established the key performance indicators ("**KPIs**") on environmental and social issues and aspects since our last ESG reporting as at 31 December 2018, which have now enabled us to review, assess and monitor the performance of our environmental and social obligations if they are in line with our corporate vision and the objectives, principles and responsibilities the Group has set, and believes in, for the Group, with regard to both the environment and general society.

Scope, Management and Approach:

The Group is engaged in the design, manufacture and sale of children's and infant apparel, footwear and accessories. We manufacture our products in both our factory in Quanzhou City of Fujian Province and on OEM orders with other factories in China. We sell our products under our "Red Kids" brand through our wholesale and retail networks throughout China.

The ESG for the year ended 2018 and reported hereinafter, covers our headquarters and main manufacturing plant in Quanzhou City of Fujian Province, our regional office in Shanghai, and our extensive network of more than 280 wholly-owned wholesale agency and retail sales outlets across China.

The Group continues to strive to be an environmentally and socially responsible corporation. We recognize sustainable development as an important driving force to the growth of the Group and creation of value to our stakeholders, general public and the environment where we live in. We view that the listed environmental and social areas and aspects in the ESG Guide are significant considerations for our business planning and operations. We have integrated those environmental and social considerations into our business objectives, strategies and practices with the purpose of achieving the following:

Environmental objectives:

- Act environmental friendly in our daily operations and services;
- Consume energy and resources wisely and efficiently; and
- Minimize hazardous, polluting and non-hazardous gas emissions, water and waste discharge.

Social objectives:

- Provide a safe and pleasant working environment to our employees and maximize their earnings;
- Commit to fair and ethical business practices; and
- Support the disadvantaged and the community.

Stakeholders Communication and Materiality

The Group always values input and feedback of its stakeholders as they may bring potential impacts to the Group's business. Internal and external stakeholders have regularly been contacted to give their views and opinions regarding the Group's operations and performance. The Group has delegated the Board of Directors and senior management to regularly review the chosen material environmental and social areas and aspects under ESG Guide in the reporting period. Through meetings, contacts and various means of communication, the Group and the stakeholders have identified the following material areas and aspects for 2018:

- Environmental practices and their performance especially on emissions and waste disposal, and green operations;
- Fairness on Employment;
- Working Conditions and employees' health and safety
- Quality of products and services; and
- Ethical business practices.

The above ESG material areas and aspects have continued to be strictly managed and monitored through the Group's established management structure, process, policies and guidelines as described in previous ESG reporting and herein re-summarize in below:

The Board of the Group approves the ESG strategies, guides and polices and the general manager has the overall responsibilities to pursue the Board's approved targets, define strategic direction and implement policies on the Group's ESG activities. The general manager has appointed an ESG Manager to monitor and review the ESG issues recommended under the ESG Guide, Global Reporting Initiative ("**GRI**") rules and the local government laws, rules and regulations on a regular basis. Independent professionals and consultants have also been and will continue to be engaged regularly to perform analysis and reviews of ESG related issues, in order to address any weaknesses and problems and to recommend changes and improvements.

ENVIRONMENTAL AND SOCIAL SUBJECT AREAS, AND THE GROUP'S ENVIRONMENTAL AND SOCIAL OBLIGATIONS PERFORMANCE

(A) ENVIRONMENTAL

As a responsible corporation, the Group has abided by all the national and local environmental laws and regulations and has implemented our "Green Environmental Policy and Measures" with the targets to harmonize our operations and activities and the environment, to prevent pollution, reduce wastes and all negative impacts on the environment, and save energy, water and other resources. Our practices not only protect the environment, but also save operation costs.

The Group is principally engaged in the design, manufacture and sale of children's and infant apparel, footwear and accessories. We design our products in our Shanghai office, manufacture them in our new factory in Quanzhou, Fujian Province or subcontract to other factories in China, and sell them through our wholly-owned and self-operated retail outlets and other wholesales channels throughout China. The Group does not own and operate its own transport fleet, all logistic and transport operations are outsourced. Under such types of cooperation, we only use substantial quantities of ready-made clothing fabrics and accessories, packaging materials including carton boxes and wooden pallets, and consume electricity, fresh water mainly for workers daily drinking and hygiene during our manufacturing process. Hence, the Group does not produce, emit or discharge any serious hazardous gas emissions, pollutants, polluted water or wastes; and only generate non-hazardous greenhouse gas emissions indirectly and general wastes such as packaging materials, paper, clothing fabrics and fibers during our manufacturing process.

A1. Emissions and Wastes

(i) Hazardous and Non-Hazardous Air Emissions

The operations and activities of the Group do not generate any hazardous air emissions and pollutants, and the only non-hazardous greenhouse gas of Carbon Dioxide (CO_2) is generated directly from the use of electricity for manufacturing in factory, lighting in sales outlets and design office in Shanghai. However, most of our sales outlets are located in shopping malls and arcades under-licensed basis, the property owners will charge management fees and sharing of the sales revenue, which electricity and fresh water will normally be exempted. Electricity consumption data for sales outlets is therefore not available and not included herein.

Hazardous air emissions such as SOx, NOx and pollutants will be generated from direct use of diesel, petrol and other fossil fuels. Apart from electricity, our factory has a few standby small diesel generators, which will be used only when there is a sudden power outage. If we constantly and regularly use diesel, we will need to report and estimate its hazardous emissions. Fortunately such incidents were only on ad hoc basis with a few short periods in the last 2 years, it is insignificant on continuous management basis and we therefore have not reported any use of diesel herein. Also, as the Group has outsourced all our transport operations to outside transport operators, our petrol and other fossils fuel consumption are insignificant and not reporting herein as well.

For 2018, same as 2017, the Group was not liable to any air emission fines or warning notices from the relevant environmental agencies.

For 2018, the Group's operations generated 1972.7 tonnes of indirect greenhouse gas of CO2 from our factory and offices from the use of electricity, which was 378.8 tonnes less than 2017, which was due to a similar corresponding drop in turnover.

(ii) Noise Pollution Emission

The operation of the factory does generate and emit noises from sewing machines and the central cooling system, which is not too large and disturbing and is all within national and local environmental acceptable limits. Moreover, our factory site is located in an industrial zone, and no residents are nearby, so our small volume of emitted noises does not cause noise pollution to the surrounding environment and local residents. Regarding our sales outlets, we do not generate any noise pollution because we, as well as most of the shopping malls and arcades, do not allow the use of amplifier to promote the sale of our products. The Group has complied with all the national and local laws, rules and regulations to ensure noise emission is under strict control. We did not receive any complaints related to noise emission in 2018, which is consistent with our performance in 2017.

(iii) Light Emission

Since all the operations and activities are conducted inside the factory and offices, no light pollution is caused. Regarding our sales outlets, though we design and decorate our sales outlets, the shopping malls and arcades set the standards of light installation and emissions which in any circumstances must comply with the local light emission standards. We have complied with all the requirements of light installation and emission, and no light pollution is caused. For 2018, we did not receive any complaints related to light emission, which is consistent with our performance in 2017.

(iv) Water Pollution and Discharge

Our operations and activities do not generate any polluted water as we do not require fresh water in our manufacturing process. However, the daily living of our staff and workers in our factory and office discharge after-used living and hygiene water through the central sewage system. The Group did not receive any complaints or warnings on our polluted water discharges in 2018.

(v) Wastes Discharge and Disposal

The Group's manufacturing process produces solid wastes in the form of residuals from the clothing fabrics used, and unpacking of raw materials supplied such as boxes and wood cartons and plastic wrapping. The factory dormitories also produce biological wastes. Both types of wastes are non-hazardous. The former has been sold to small operators and recyclable materials collectors on a regular basis, and the latter has been stored in central rubbish depots and cleared by the city urban cleaning services on daily basis at a fee. The Group did not receive any complaints or warnings on our wastes disposal in 2018, which is consistent with our performance in 2017.

(vi) Mitigation Measures

Given the nature of our operations and activities, the Group does not generate much hazardous and non-hazardous emissions and discharges. However, as a responsible corporation and also for cost-saving purpose, we are conscious of the effects of our operations and activities may have on the environment and our overall costs of operations at all times and constantly work on maximizing energy efficiency and minimizing waste generation, disposal and discharges. We fully comply with all the national and local environmental laws, rules and regulations and industrial standards. Furthermore we have incorporated environmental friendly measures into our daily operations to reduce and prevent adverse impacts on our environment. We encourage economical and recycling use of resources to prevent resource wastage. We have implemented the following measures to prevent and to reduce the generation of air emissions, polluted water discharge and solid wastes disposal, as well as to save energy and resources and costs in our daily operations.

We appoint responsible officers to inspect factories, dormitories and offices to ensure that (i) fresh water is not wasted and used reasonably, and (ii) power is turned off when work is not being carried out, use of natural ventilation to replace air-conditioning in allowable conditions, and all air-conditioner temperature should not be lower than 24°C under normal conditions. The Group has also invested in fresh water and energy saving tools and equipment such as the installation of LED lights and solar energy systems to reduce energy consumption.

A2. Use of Resources

The Group only uses electricity, fresh water, papers and packaging materials – namely carton boxes, wooden pallets and plastic wraps, and clothing fabrics and fibers and accessories in our manufacturing process, and general office utensils in our office.

Although our operations and activities do not generate much environmental hazards, we are committed to act responsibly and to aim at minimizing the impact on the environment and our costs. We promote efficient uses of resources including electricity, fresh water, papers and packaging materials through the introduction of various measures disclosed in previous ESG reporting. In 2018, the Group did not find any abnormal or excessive uses of resources including electricity and diesel, fresh water, paper and packaging materials which were all within our internal control targets.

(i) Electricity and Fuel Consumption

The Group uses mainly electricity from the city grid for its manufacturing and office operations. To save operational costs and to improve our environmentally friendly footprint, the Group has implemented measures as mentioned before to reduce energy consumption.

In 2018, we used a total of 237,442.80 kWh of electricity for our office and 1,741,247.20 kWh for our production facilities. Comparing with 2017, the office experienced a slight increase of 1,440.2 kWh, while the factory had 381,694.8 kWh or – 18% drop on electricity consumption, which was on one hand due to a corresponding 8.6% drop on our sales and production, and on the other hand contributed by our energy saving measures.

(ii) Fresh Water Consumption

The Group's factory, office and sales outlets have no problem on sourcing fresh water supply, which comes from the cities' central water supply network, and is used mainly for living purposes by our staff and workers. We encourage our staff and workers to efficiently use fresh water as it is one of the most important scarce resources of today's world. We have appointed supervising staff to regularly inspect the kitchens, bathrooms and toilets, to ensure all facilities are in good condition and that all the water taps have been turned off when they are not in use, and to check and to immediately remediate any water leakage.

(iii) Paper and Packaging Materials and other Raw Materials Consumption

To save operational costs and to improve our environmentally friendly footprint, the Group has implemented the following measures to reduce paper consumption reduction:

- Applying computer technology such as storage of documents in electronic version, communications via emails and messages to replace paper consumption;

- Encouraging staff to reuse stationery such as envelopes, document folders etc.; and

- Using both sides and recycled papers for printing.

In our production process, we use plastic and paper to pack our garments and apparels. We have already instructed our design team to source and use recycled paper and plastic materials for packaging and bags for our sales outlets. In 2018, we used a total of 207 boxes of paper in our operations, a reduction of 5 boxes or 2.3% compared to 212 boxes used in 2017 which was due to the reduction in sales.

Given the nature of our clothing products, we use a substantial quantities of natural and synthetic fibers such as cotton, jute and nylon, etc. The Group is conscious of the environmental effects of the raw materials chosen and have always encouraged our designers to choose and to design environmentally friendly garments by using natural fibers.

A3. The Environment and Natural Resources

As discussed above and in our previous 2 ESG reports, the Group's operations and activities do not cause much environmental impacts or hazards. We have complied with all the national and local environmental laws, rules and regulations, and industry standards, and have not polluted the air, water and land in the areas we are operating. But, as a responsible corporation and at the same time to save costs, the Group aims to conserve resources used in the operations of its business, and have implemented measures to reduce energy, fresh water, paper and packaging materials consumptions. We promote environmental education and advocacy amongst our employees with a purpose to motivate environmental friendly behavior across our organization. The management is aware that conservation and monitoring of its resources as a continuing practice will show benefits over time.

(B) SOCIAL

The Group strives to create a harmonious society and build a mutually beneficial relationship with our stakeholders including employees, customers, suppliers, professional services providers, local communities as well as the governing authorities. Throughout the formulation and implementation of our ESG strategies, policies, rules and regulations, we incorporate our long and short term goals with considerations on the stakeholders and the society. We act in an honest and transparent way with mutual respect and believe that our sincere acts will ultimately benefit the stakeholders and general society.

Pursuant to ESG Guide, social aspects include "Employment and Labor Practices" and "Operation Practices", which are reported below:

(i) Employment and Labour Practices

The Group values employees as one of its most valuable assets and our success depends on the commitment, passion, productivity and quality of its employees. The Group has therefore ensured that its Human Resource policies and practices are clear, equitable and humanistic, and has committed to create a safe and pleasant working environment for all of the employees. The Employees' Handbook and employment contract contain clear provisions that no sex, religious, racist and marital status discrimination on employment and works is allowed and opportunities for growth and development are provided. Our recruitment and selection process is based on objective merits. We employ qualified employees in the market by offering competitive wages and benefits, providing training and promotion opportunities. We specify the jobs requirements and will advertise as well as recruit through employment agencies. The selection process has been standardized and positions will be offered after background checks, tests and interviews by our human resources department. The appointment of senior managers will be decided by the CEO of the Group. However, many of our positions are offered to low-skilled or semi-skilled female rural workers who will be extensively trained in house. They are provided with more opportunities and a growth path. They will stay with us for longer terms if there are promotion opportunities.

For 2018, the Group honored all of its obligations with regards to paying the salaries and wages, employees' social insurances and agreed benefits under the signed employment contracts and no labor disputes were recorded in court, same as 2017.

B1. Employment

(i) Employment Mix

In 2018, the Group's total employee headcount was 730, which was 238 more than 2017, which was mainly due to our planned development in work forces in design, production and sales departments. Our employment mix has the following features:

- On female to male mix – 384 or 52.6% were female and 346 or 47.4% were male, and the female to male ratio was quite similar to 2017;

- On roles mix – 174 or 23.8% were on managerial roles, 160 or 21.9% were on operational including sales jobs, and 396 or 54.2% were on factory labor jobs;

- On age mix – 117 or 16% were under 30, 487 or 66.7% were between 31 to 40, 66 or 9.1% were between 41-50, 56 or 7.7% were 51-60, and 4 or 0.5% were above 60.

- On sources mix – nearly 90% of our employees were from the country-side.

(ii) Employee Compensation and Package

The Group strictly complies with the relevant laws and regulations of the "Labor Law of the PRC" 《中華人民共和國勞動法》 and "Employment Ordinances of the Hong Kong Special Administrative Region" (the "**HKSAR**"), and has totally forbidden the recruitment of child labor and forced labor. All employees are required to sign contracts containing detailed terms and conditions including but not limited to the amount of salaries and wages, benefits, medical and accidental insurances, unemployment funds, working hours, employee rights to join trade unions and to have holidays and so on, and such contracts are filed with the local Human Resource Bureau.

We pay competitive market salaries and wages to our employees, and for special talented, skilled and qualified employees, we remunerate them either by offering higher than market salaries and wages or additional benefits.

In accordance with the requirements of the laws of the PRC and the HKSAR, where appropriate, the Group provides and maintains statutory benefits to all qualified employees, including but not limited to mandatory provident fund, social security insurance, medical insurance, work injury insurance and compensation and statutory holidays.

For 2018, the Group did not have any employment related legal disputes on record.

B2. Health and Safety

The Group is committed to providing a safe, clean and pleasant working environment to all the employees. We have equipped the offices, factory, sales shops and workers dormitories with adequate, up-to-date safety and medical equipment, tools and facilities to ensure safety and convenience to employees. Our production facilities and dormitories have passed all government safety inspections, and we have established and maintained clinical rooms with qualified medical personnel. Our dormitories and canteens have also passed all safety and hygiene requirements and that our dormitories are comfortable and equipped with recreational facilities for the employees to relax and enjoy. Our management and employees are required to strictly observe our Employee Handbook and Guidelines as well as any Labor Contract in China or Employment Contract in Hong Kong, where relevant, which state clearly the relevant rules and regulations on employee and workplace safety. All employees have been covered with social, medical and accidental insurances as required by law.

Taking occupational health and safety as one of our prime responsibilities, we have implemented emergency procedures that in case of accidents, regardless of the level of seriousness, employees are required by the in-house rules and local and national laws as appropriate, to notify their superiors immediately or without delay, who will then take appropriate measures to ensure that safety is not being compromised. Measures are in place to require corresponding remedial or compensatory actions arising from safety and health issues or work injuries are taken where necessary in accordance with the in-house and national rules. We have observed and complied with all the Occupational and Health laws of China, and have regularly provided safety training to our employees.

In 2018, same as 2017, the Group did not have any work related fatalities nor any claim disputes on compensation or investigation by government agencies.

B3. Development and Training

The Group recognizes the value and contribution of its employees and is willing to invest and to offer training and development to enhance their skills and capabilities.

As most of our factory employees come from rural areas with little or no skills, the Group has implemented a policy that any new production employees are required to receive 1 to 3 months on-the-job training under the guidance of their supervisors. For employees in our sales outlets, the Group has also provided in-house on-the-job training, including selling skills and emotion handling. All training course expenses are fully covered by the Group.

The Group encourages movement of employees from factory to retail sales outlets and has developed such promotion paths for our employees with promotion paths from workers to team leaders and outlet managers readily available. In fact, most of our sales outlet managers have been trained and promoted from within our lower rank employees. The Group will continue its policy of providing employment opportunities to, and training up rural, unskilled labor.

The Group has also frequently arranged senior managers or professionals to provide technical and occupational advice and guidance and short term training to junior staff and/or sponsored them to attend external training programs relevant to their work to improve their skills and knowledge which will be beneficial to their career development.

We continued with our training policy and in 2018, apart from on-the-job training, the Group provided 129 training hours by external consultants and professionals, to 406 operation employees – 206 female and 200 male. These training programs included production safety, fire-prevention, sales and marketing, sales outlets and division management.

B4. Labour Standards

In 2018, the Group did not experience any material labor disputes nor any serious labor causalities leading to material insurance claims. We have honored all our obligations under the employment contracts and have provided a safe, healthy and pleasant working environment across all our operations. The Group adopts the respective national standard as its minimum labor standard on labor protection and welfare and also maintains strict compliance with the laws in relation to equal employment opportunities and the prevention of child or forced labor. We are not aware of any material non-compliance with the relevant standards, rules and regulations in relation to our employment and labor practices

To build a mutually understanding and acceptable working environment, the Group encourages employees to communicate open-heartedly, and has invited employee representatives to meet regularly to discuss issues relating to working conditions, health and safety and employment terms and conditions. The Group believes that with effective communication, trust can be built and a win-win situation can be established.

(ii) Operational Practices

B5. Supply Chain Management

Supply chain management in the ESG Guide mainly refers to the management of sourcing and procurement. The Group mainly procures raw and packaging materials including clothing fabrics and accessories to produce children and infant apparel, footwear and accessories, and printing papers and office utensils.

To ensure a stable, quality assured, cost efficient and well managed supply chain, the Group has implemented clear procurement management rules and guidelines containing policies and procedures with respect to procurement including quality control, warehousing, payment and documentation approval process, and methods of payment. We select suppliers based on a set of criteria, which includes (i) ability to meet specification and standards, (ii) products and services quality; (iii) pricing of the products and services; (iv) delivery reliability; and (v) track records of the suppliers' business relationships with us and others in the industry and their committed compliance to laws, rules and regulations. The Group maintains a list of over 30 suppliers and will invite 2 to 3 suppliers to tender for purchases in order to obtain the optimal offer and to eliminate any chance of malpractice. One unique feature in our purchase policy is that we have tried to integrate social responsibility into our purchase process. We provide preferential status to local suppliers who engage in environmentally friendly and socially responsible practices, who use recyclable and natural materials, and employ handicapped workers.

For price and supply flexibility reasons and to support the local economic development, we source most of the raw materials and accessories from suppliers in China. Compared to 2017, all 28 suppliers were locals with one fewer supplier compared to 2017.

B6. *Production Responsibility*

There are four major aspects to our Group's production responsibility policies and practices: product quality and safety, customer services and complaints, intellectual property rights, privacy, anti-corruption and community investment.

The Group designs, manufactures and sells middle to high priced children and infant apparel, footwear and accessories under our own registered trademark "Red Kids" brand via a network of over 380 retail outlets and wholesale agents across China. Together with our investment in modern production facilities, our professional design and management team, and the business and operation philosophies of "original, modern and fashionable on design", "quality of production" and "fairness and honesty on sales", the Group obtained ISO9001 on Quality Management System and ISO14001 on Environmental Management System certifications, and won the following awards since our official establishment in 1995:

1995	Golden Bridge Award from China Textile Association
2000, 2006, 2009 & 2010	Fujian Famous Brand Award
2001, 2002 & 2005	Government Supported and Developed Famous Export Brand Award
2013	National Top-Quality Enterprise Award
2011, 2013 & 2016	10 Most Famous Kid Fashion Brands Award

- *Product Quality and safety*

  The Group takes all reasonable steps to ensure that the goods we produced are safe and harmless to consumers, meet all agreed or legally required standards for consumer health and safety, including health warnings, product safety and information labels. We have employed controllers to examine the quality and safety of our products from the first stage of raw materials purchases to the final stage of sales and to regularly inspect goods at our production lines and sales outlets to ensure that they are compliant with both internal and external quality assurance codes.

  For 2018, we had no major sales returns, or complaints or warnings from the Consumer Councils or relevant government authorities on the quality and safety issues of our products, same as 2017.

- *Customer Services and Complaints*

  Our products are sold both through wholesale and via our direct and agency controlled retailed outlets. We provide industry standard guarantees and returns and refund programs if there is a quality problem. All our retail outlets mangers have been trained to handle defects and complaints. A customer service unit has been established to collect and analyze returns and rejects cases, and thereafter will explain and give recommendations to the management for improvement review and consideration.

  We are proud that we had no major sales returns or complaints due to any product defects in 2018, same as previous years.

- *Intellectual Property Rights*

  Since our establishment, the Group has manufactured and sold children and infant apparel, footwear and accessories under its wholly owned and trademarked brand name "Red Kids". We promote originality on all our apparel, footwear and accessories and design in-house and seldom purchase Intellectual Property ("**IP**") Rights from other third party. It is because we recognize IP Rights and always alert our designers to observe and to respect others' IP Rights.

  The Group respects and strictly complies with both national and international IP Rights, and in 2018, same as 2017, we have not received any reports of any IP Rights infringements.

- *Privacy*

  The Group's business operations have generated large volumes of private confidential and sensitive information of suppliers, co-operation partners including the cooperation status and financial positions, commercial terms of contracts etc. Such information is extremely sensitive and important, and by law must be safeguarded. The Group is fully aware of this obligation, and has taken measures to ensure safe keeping of the information. Any potential leakage or loss of information to outsiders is mainly due to either internal theft through mishandling or external theft through hacking into our information systems. The Group has implemented and enforced management rules on information technology covering protection procedures for information security as well as handling processes and application procedures. This is coupled with our employees' handbook and employment contracts, which state that confidentiality must be maintained at all times and employees are strictly prohibited to access and/or release any such information without approval from management. Legal action might be taken against any privacy violation. To combat the external hackers gaining access to our information, the Group has authorized the information technology division to continuously, where possible, monitor, maintain and update all hardware, software and security systems in order to prevent hacking attacks at any time.

For 2018, same as 2017, there were no cases filed against us nor any complaints received, regarding any breach of relevant privacy laws, regulations and policies in any jurisdiction in which we operate.

B7. Anti-corruption

As discussed in the introduction section, anti-corruption is a material aspect to all stakeholders. The Group has a social responsibility to safeguard the assets and interests of all our stakeholders including investors, adopting a zero tolerance approach to bribery, extortion fraud, and money laundering crimes. We conduct our business with a high degree of integrity, honesty and impartiality. All our employees and suppliers must follow our strict policies on ethical standards/business integrity that prohibits bribery and corruption in any form. This policy has been effectively communicated to all workers in our employees' handbook. It is strictly prohibited to offer, give, demand or accept any undue advantage (such as money, favours, gifts, discounts, services, loans, contracts etc.) to or from any person in order to obtain or retain business or other improper advantage.

Same as 2017, the Group did not have any bribery or corruption cases reported in 2018.

B8. Community Investment

In 2018, the Group continued to support and contribute to the community. Despite China's economic slowdown in 2018, the Group employed an additional 238 employees, most of them were from country-side with low skill. To ensure a pleasant, healthy and safe living and working environment to the employees, the Group continued to invest and upgrade on employees' accommodations, food courts and sport facilities. The Group is striving to uplift the quality of its working environment through active planting, together with other vegetation in the factory backyard. The Group also encourages its employees to actively involve in volunteering and charitable activities.

CORPORATE GOVERNANCE REPORT

The Board hereby presents the Corporate Governance Report in the Group's annual report for the year ended 31 December 2018.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining 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 FY2018, the Board comprised three executive Directors and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code (the "**CG Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). During FY2018, 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. During FY2018, the management of the Company had not provided regular monthly updates to the members of the Board. The management had provided information and updates to the members of the Board as and when appropriate.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding Directors' securities transactions. Specific enquiries have been made to all Directors and all Directors have confirmed that they have fully complied with the required standard of dealings as set out in the Model Code during FY2018.

BOARD OF DIRECTORS

The Board is committed to providing effective and responsible leadership for the Company. The Directors, individually and collectively, must act in good faith in the best interests of the Company and its Shareholders. The Board has established three Board committees, being the Audit Committee, the Remuneration Committee and the Nomination Committee (each a "**Board Committee**" and collectively the "**Board Committees**"), to oversee different areas of the Company's affairs.

The Board currently comprises three executive Directors, namely Mr. Ding Peiji, Mr. Ding Peiyuan and Ms. Ding Lizhen, and three independent non-executive Directors, namely, Mr. Hung Cho Sing, Mr. Chan Wai Wong and Mr. Wu Shiming.

Their biographical details and (where applicable) their family relationships are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 38 to 40 of the annual report. A list of the Directors identifying their role and function and whether they are independent non-executive Directors are available on the Company's website.

The Board sets the Group's overall objectives and strategies, monitors and evaluates its operating and financial performance and reviews the corporate governance standard of the Group. It also decides on matters such as annual and interim results, major transactions, director appointments or re-appointments, investment policy, dividend and accounting policies. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's businesses to the executive Directors and members of senior management. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate.

The Board is also responsible for developing, reviewing and monitoring the policies and practices on corporate governance and legal and regulatory compliance of the Group, and the training and continuous professional development of Directors and senior management. The Board also reviews the disclosures in the Corporate Governance Report to ensure compliance.

All Board members have separate and independent access to the Group's senior management to fulfill their duties. Independent professional advice can be sought to assist the relevant Directors to discharge their duties at the Group's expense upon their request.

All Directors are required to declare to the Board upon their first appointment, the directorships or other positions they are concurrently holding at other companies or organizations. These interests are updated on an annual basis and when necessary.

BOARD MEETINGS AND ANNUAL GENERAL MEETING

The attendance of each Director at the Board meetings and annual general meeting are set out below:

Name of Directors	Annual General Meeting attendance/held	Board Meetings attendance/held
Mr. Ding Peiji	1/1	5/5
Mr. Ding Peiyuan	1/1	5/5
Ms. Ding Lizhen	1/1	5/5
Mr. Hung Cho Sing	1/1	5/5
Mr. Chan Wai Wong	1/1	5/5
Mr. Wu Shiming (appointed on 16 July 2018)	N/A	3/3
Ms. Wong Yan Ki, Angel (resigned on 16 July 2018)	1/1	2/2

N/A: Not applicable

DIRECTORS' AND OFFICERS' INSURANCE

Appropriate insurance coverage has been arranged in respect of potential legal actions against the Directors and officers of the Company.

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

All Directors are aware of their responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, in pursuit of the development of the Group. Every newly appointed Director receives an induction to ensure that he has a proper understanding of the business and operations of the Group and that he is fully aware of his duties and responsibilities as a director under applicable rules and requirements.

All Directors are provided with regular updates on the Company's performance and financial position to enable the Board as a whole and each Director to discharge their duties. In addition, updates on the latest development regarding the Listing Rules and other applicable regulatory requirements are provided to each of the Directors by way of seminars or reading materials circularization to ensure compliance and enhance their awareness of good corporate governance practices. According to the records provided by the Directors, a summary of training received by the Directors during the year is as follows:

Directors	**Type of continuous professional development programmes**
Executive Directors	
Mr. Ding Peiji	A
Mr. Ding Peiyuan	A
Ms. Ding Lizhen	A
Independent Non-executive Directors	
Mr. Hung Cho Sing	A
Mr. Chan Wai Wong	A
Mr. Wu Shiming (appointed on 16 July 2018)	A

Note:

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The role of the independent non-executive Directors is to provide independent and objective opinions to the Board, giving adequate control and balances for the Group to protect the overall interests of the Shareholders and the Group. They serve actively on the Board and its committees to provide their independent and objective views.

In compliance with Rules 3.10(1) and 3.10A of the Listing Rules, the Company has appointed three independent non-executive Directors, representing more than one-third of the Board. One of the independent non-executive Directors has the appropriate professional qualifications in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

Each independent non-executive Director has submitted confirmation of his/her independence to the Company pursuant to rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all of the independent non-executive Directors are independent.

BOARD COMMITTEES

The Board is supported by three committees, namely the Audit Committee, the Nomination Committee and the Remuneration Committee. Each Board Committee has its defined and written terms of reference approved by the Board covering its duties, powers and functions. Their terms of reference are available on the Company's website.

All Board Committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary.

(i) Audit Committee

The Audit Committee comprises three independent non-executive Directors, namely Mr. Hung Cho Sing, Mr. Chan Wai Wong and Mr. Wu Shiming. Mr. Wu Shiming, who has appropriate professional qualifications and experience in accounting matters, was appointed as the Chairman of the Audit Committee.

The principal responsibilities of the Audit Committee are to assist the Board in providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems and relationship with external auditors of the Group, oversee the audit process and perform other duties and such responsibilities as assigned by the Board. These include reviewing the Group's interim and annual reports.

The Audit Committee has held three meetings during the year ended 31 December 2018. Major tasks completed by the Audit Committee during the year include:

- reviewing the annual audit plan submitted by the external auditors of the Company；
- reviewing the Group's interim and annual reports；
- reviewing accounting policies and practices adopted by the Group；
- reviewing the external auditor's qualifications, independence and audit fee；
- reviewing the external auditor's management letter and the management's response；and

- assisting the Board to evaluate on the effectiveness of financial reporting procedures and internal control system.

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

	Audit Committee meeting attendance/held
Independent non-executive Directors	
Mr. Hung Cho Sing	3/3
Mr. Chan Wai Wong	3/3
Mr. Wu Shiming (appointed on 16 July 2018)	2/2
Ms. Wong Yan Ki, Angel (resigned on 16 July 2018)	1/1

(ii) Remuneration Committee

The Remuneration Committee comprises two independent non-executive Directors and one executive Director, namely Mr. Hung Cho Sing, Mr. Chan Wai Wong and Mr. Ding Peiyuan. Mr. Hung Cho Sing is the chairman of the Remuneration Committee. The principal responsibilities of the Remuneration Committee are to review and make recommendations to the Board on the overall remuneration structure and policy for all Directors and senior management as well as the specific remuneration packages for the executive Directors and senior management and on the establishment of a formal and transparent process for developing such remuneration policy. No Director takes part in any discussion on his own remuneration. The Company's objective for its remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration and fees paid to members of the Board, market rates and factors such as each Director's workload, performance, responsibility, job complexity and the Group's performance are taken into account.

The Remuneration Committee has held one meeting during the year ended 31 December 2018. All members of the Remuneration Committee have attended the meeting and reviewed the remuneration policy and structure relating to the Directors and senior management of the Company.

The remuneration of the members of the senior management of the Group by band for the year ended 31 December 2018 is set out below:

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

Particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 8 and 9 to the financial statements.

(iii) Nomination Committee

The Nomination Committee comprises two independent non-executive Directors and one executive Director, namely Mr. Chan Wai Wong, Mr. Wu Shiming and Ms. Ding Lizhen. Mr. Chan Wai Wong is the Chairman of the Nomination Committee. The principal responsibilities of the Nomination Committee are to review the composition of the Board, including its structure, size and diversity at least annually to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Group. It is also responsible to consider and recommend to the Board suitably qualified persons to become a member of the Board, monitor the succession planning of Directors and assess the independence of independent non-executive Directors. The Nomination Committee will also give consideration to the Board Diversity Policy (as defined below) when identifying suitably qualified candidates to become members of the Board, and the Board will review the Board Diversity Policy (as defined below), so as to develop and review measurable objectives for the implementing the Board Diversity Policy (as defined below) and to monitor the progress on achieving these objectives.

The Nomination Committee has held one meeting during the year ended 31 December 2018. All members of the Nomination Committee have attended the meeting and reviewed the size, diversity and composition of the Board.

CORPORATE GOVERNANCE FUNCTION

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board on 16 December 2013 in compliance with provision D.3.1 of the Code Provisions, which include (a) to develop and review the Company's policies and practices on corporate governance; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the Code Provisions and relevant disclosure in the corporate governance report of the annual report of the Company.

The Board has performed the abovementioned corporate governance functions during the year ended 31 December 2018.

BOARD PROCEEDINGS

Regular board meetings are held at quarterly intervals with additional meetings convened as and when necessary to discuss the overall strategic directions, the Group's operations, financial performance, and to approve interim and annual results and other significant matters. For regular meetings, Board members are given at least 14-day prior notice, and agenda with supporting papers sent to Directors not less than 3 days before the relevant meeting is held. Directors may propose to the Chairman or the Company Secretary to include matters in the agenda for regular board meetings.

Directors are requested to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at board meetings and abstain from voting in favour of the related board resolutions as appropriate.

Minutes of meetings of the Board and Board Committees are kept by the Company Secretary in sufficient details of the matters considered and decisions reached, including dissenting views expressed, and are open for inspection on reasonable notice by any Director. Draft and final versions of minutes are sent to all Directors for their comments and records respectively within a reasonable time after the board meeting is held.

All Directors have access to the advice and services of the Company Secretary with a view to ensuring the Board procedures are followed.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors of the Company has entered into a service contract with the Company for an initial term of three years commencing on the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other which notice shall not expire until after the fixed term. Each of the independent non-executive Directors has entered into an appointment letter with the Company for an initial term of three years commencing from the appointment. Each of the Directors will be subject to retirement and re-election at annual general meeting of the Company in accordance with the Company's articles of association.

In accordance with the Company's articles of association, a person may be appointed as a Director either by the Shareholders in general meeting or by the Board. Any Directors appointed by the Board as additional Directors or to fill casual vacancies shall hold office until the next following general meeting, and are eligible for re-election by the Shareholders. In addition, all Directors are required to retire by rotation at least once every three years at the annual general meeting, and are eligible for re-election by the Shareholders.

BOARD DIVERSITY POLICY

Pursuant to the CG Code, the Board adopted a board diversity policy (the "**Board Diversity Policy**") on 16 December 2013. The Company recognizes and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

The Board also aspires to having an appropriate proportion of directors who have direct experience in the Group's core markets and distribution channels. The ultimate decision will be based on the merit and contribution that the selected candidates will bring to the Board, having due regard to the benefits of diversity on the Board and also the needs of the Board without focusing on a single diversity aspect.

JOINT COMPANY SECRETARIES

Mr. Pang Wing Hong and Ms. Lu Yanping, the Joint Company Secretaries of the Company, are full-time employee of the Group and have day-to-day knowledge of the Company's affairs. They also serve as the secretary of the Audit Committee, the Nomination Committee and the Remuneration Committee. Mr. Pang Wing Hong is responsible for advising the Board through the Chairman and/or the Chief Executive Officer on governance matters.

Mr. Pang Wing Hong and Ms. Lu Yanping confirmed that they have taken not less than 15 hours of relevant professional training during the year ended 31 December 2018.

The biographical details of the Joint Company Secretaries are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 38 to 40 of the annual report.

FINANCIAL REPORTING AND INTERNAL CONTROL

Financial reporting

The Board acknowledges its responsibility to prepare the Company's financial statements which give a true and fair view of the Group's state of affairs, results and cash flows for the year and in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, and the disclosure requirements of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates. The Board considers that the Group has adequate resources to continue in business for the foreseeable future and is not aware of any material uncertainties relating to events or conditions that may affect the business of the Company or cast doubts on its ability to continue as going concern.

The responsibilities of HLB Hodgson Impey Cheng Limited, the Company's external auditor, with respect to financial reporting are set out in the section headed "Independent Auditors' Report" in this annual report.

Internal control

The Board is responsible for maintaining sound and effective risk management and internal control systems to safeguard the investments of the shareholders and the assets of the Company. However, it should be noted that the Company's risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board monitors the risk management and internal control systems principally through the external professional adviser, and is committed to conducting, at least annually, a review of the effectiveness of the risk management and internal control systems of the Group.

The external professional adviser is assigned with the task to perform reviews on operational, financial and compliance aspects and will alert the management on the review findings or irregularities, if any, advise on the implementation of necessary steps and actions to enhance the internal control systems of the Group. The result of internal control review and agreed action plans are reported to the Audit Committee and the Board.

EXTERNAL AUDITORS

During the year ended 31 December 2018, the fees payable to HLB Hodgson Impey Cheng Limited in respect of its audit services were RMB1.3 million (2017: RMB1.3 million). There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditors during the years ended 31 December 2018 and 2017.

COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHTS

The Company aims to, via its corporate governance structure, enable all its Shareholders an equal opportunity to exercise their rights in an informed manner and allow all Shareholders to engage actively with the Company. Under the Company's articles of association, the Shareholder communication policy and other relevant internal procedures of the Company, the Shareholders of the Company enjoy, among others, the following rights:

(i) Participation at general meetings

The general meetings of the Company provide an opportunity for direct communication between the Board and the Shareholders. The Company encourages the participation of the Shareholders through annual general meetings and other general meetings where the Shareholders meet and exchange views with the Board, and to exercise their right to vote at meetings. The Company shall arrange notices of meetings and circulars containing details on proposed resolutions to be sent to the Shareholders no less than 20 business days before the meeting. At general meetings, separate resolutions are proposed on each substantial issue, including the election of individual Directors.

(ii) Enquiries and proposals to the Board

The Company encourages Shareholders to attend Shareholders' meetings and make proposals by either directly raising questions on both operational and governance matters to the Board and Board Committees at the general meetings or providing written notice of such proposals for the attention of the Joint Company Secretaries at the registered office of the Company in Hong Kong currently situated at Room 1601, Ho King Commercial Centre, 2–16 Fa Yuen Street, Mongkok, Kowloon, Hong Kong or via email to ir@redkids.com.

(iii) Convening extraordinary general meetings

The Directors may, whenever they think fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Directors or the Company Secretary and deposited at the registered office of the Company in Hong Kong currently situated at Room 1601, Ho King Commercial Centre, 2–16 Fa Yuen Street, Mongkok, Kowloon, Hong Kong for the purpose of requiring an extraordinary general meeting to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Directors fail to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the requisitionist(s) by the Company.

There are no provisions under the Company's articles of association or the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands regarding procedures for Shareholders to put forward proposals at general meetings other than a proposal of a person for election as director. Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

The notice of annual general meeting together with the accompanying circular setting out the relevant information as required under the Listing Rules are sent to Shareholders at least 20 clear business days prior to the meeting. Poll voting has been adopted for decision-making at Shareholders' meetings to ensure that each share is entitled to one vote. Details of the poll voting procedures are set out in the circular sent to Shareholders prior to the meeting and explained at the commencement of the meeting. Voting results are posted on the Company's website on the day of the annual general meeting.

(iv) Procedures for proposing a person for election as a Director

Pursuant to Article 85 of the articles of associations of the Company, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such Notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that (if the Notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such Notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

INVESTOR RELATIONS AND COMMUNICATION

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

CONSTITUTIONAL DOCUMENTS

There was no change in the memorandum and articles of association of the Company during the year ended 31 December 2018.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Ding Peiji, aged 48, is the founder of our Group. He is also the chief executive officer and the chairman of the Board of our Company. He was appointed as an executive Director on 15 March 2013. He is also the chairman of board of directors of Red Kids (China) Co., Ltd. ("**Red Kids China**"), a principal operating subsidiary of our Group. Mr. Ding has over 15 years of experience in the apparel and retail industry and is primarily responsible for our overall corporate strategies, planning and business development. His social undertakings include the vice Chairman for the second term of the Children's Wear Expert Committee of China National Garment Association(中國服裝協會童裝專業委員會)ppointed in September 2009, the vice president for the first and second term of the Quanzhou Textile & Garments Commerce Chamber(泉州市紡織服裝商會)appointed in May 2002 and November 2008, respectively, a standing council member for the first term of the Federation of Industry & Commerce of Quanzhou Qingmeng Scientific & Technological Industrial Zone(泉州市清濛科技工業園區工商業聯合會) appointed in August 2002, and a Supervisor of Qingmeng Scientific & Technological Industrial Zone for Honest and Efficient Governance(清濛科技工業區勤政廉政監督員)appointed in July 2002. He completed the Advanced Management Programme by China Europe International Business School (中歐國際工商學院)in 2010.

Mr. Ding Peiji is the brother of Mr. Ding Peiyuan and Ms. Ding Lizhen, both of whom are our executive Directors.

Mr. Ding Peiyuan, aged 46, was appointed as an executive Director and chief operating officer on 16 December 2013. He is also the vice general manager of Red Kids China. Mr. Ding has over 10 years of experience in the production and sales of apparel and retail industry and is primarily responsible for the formulation and execution of business development strategies of our Group. He completed the Advanced Management Programme by China Europe International Business School(中歐國際工商學院) in 2009.

Mr. Ding Peiyuan is the brother of Mr. Ding Peiji and Ms. Ding Lizhen, both being our executive Directors.

Ms. Ding Lizhen, aged 53, was appointed as an executive Director and vice president on 16 December 2013. She is also the vice general manager of Red Kids China. Ms. Ding has over 15 years of experience in the apparel and retail industry and is primarily responsible for the production management and product development of our Group.

Ms. Ding Lizhen is the sister of Mr. Ding Peiji and Mr. Ding Peiyuan, both of whom are our executive Directors.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hung Cho Sing, aged 78, was appointed as an independent non-executive Director of our Company on 14 April 2016 and has over 30 years of experience in the film distribution industry and founded Delon International Film Corporation in 1970. Mr. Hung has been the chairman of Hong Kong, Kowloon and New Territories Motion Picture Industry Association Limited since 1991 and was the chairman of Hong Kong Film Awards Association Limited from 1993 to 1995. Mr. Hung was appointed by the Hong Kong Special Administrative Region (HKSAR) Government as a member of the Hong Kong Film Development Council from 2007 to 31 March 2013. Mr. Hung was also appointed as a consultant of the China Film Association since 2013. Mr. Hung is also a member of HKSAR Election Committee and a vice chairman of the Cultural Profession Committee of the Guangdong, Hong Kong and Macau

Cooperation Promotion Council(廣東省粵港澳合作促進會文化專業委員會副主任委員). Mr. Hung was awarded the Bronze Bauhinia Star (BBS) by the HKSAR Government in 2005 in recognition of his contribution to the Hong Kong film industry. Mr. Hung has been appointed by the HKSAR Government as member of the Working Group on Manufacturing Industries, Innovative Technology, and Cultural and Creative Industries under the Economic Development Commission since January 2013.

Mr. Hung is an non-executive director of Universe Entertainment and Culture Group Company Limited (stock code: 1046) and an executive director of EJE (Hong Kong) Holdings Limited (stock code: 8101). He is also an independent non-executive director of China Star Entertainment Limited (stock code: 326), Unity Investments Holdings Limited (stock code: 913), KOALA Financial Group Limited (stock code: 8226) and Enerchina Holdings Limited (stock code: 622). Mr. Hung was a non-executive director of Capital VC Limited (stock code: 2324) from 15 September 2011 to 30 January 2014, an independent non-executive director of Hengten Networks Group Limited (formerly known as Mascotte Holdings Limited) (stock code: 136) from 22 January 2013 to 26 October 2015 and an independent non-executive director of Freeman Fintech Corporation Limited (stock code: 279) from 9 January 2013 to 25 January 2017. All these companies are listed on the Stock Exchange in Hong Kong.

Mr. Chan Wai Wong, aged 31, was appointed as an independent non-executive Director of our Company on 3 November 2016. Mr. Chan obtained a master degree in Theory of Finance from the University College Dublin in Ireland and a Bachelor degree in Economics from Renmin University of China in the PRC. Mr. Chan has served various positions in several financial companies over the years, where he gained ample experience in financial investment, corporate operation, project analysis, and risk management. He is currently a vice president of a financial investment company, which has been doing market value management with several companies listed on the Stock Exchange in Hong Kong.

Mr Wu Shiming, aged 42, was appointed as an independent non-executive Director of our Company on 15 July 2017. Mr. Wu, obtained a diploma in foreign economic enterprise financial accounting at Jimei University(集美大學)in the PRC in 1995 and a degree of finance at Xidian University(西安電子科技大學)in the PRC in March 2011, which is an online learning course. Mr. Wu has been the supervisor of Xiamen Bank Company Limited(廈門銀行股份有限公司)since December 2008. He is a qualified intermediate accountant and he was awarded such qualification in December 2001 by the Ministry of Finance and the Ministry of Personnel of the PRC. Mr. Wu has over 20 years of experiences in accounting and financial management. Mr. Wu is also currently an independent non-executive director of China Putian Food Holding Limited (Stock Code: 1699) and Theme International Holdings Limited (Stock Code: 990). He was an independent non-executive director of Pak Tak International Limited (Stock Code: 2668) from 24 September 2014 to 31 August 2016, an independent non-executive director of Leyou Technologies Holdings Limited (Stock Code: 1089) from 17 December 2010 to 5 September 2017 and an independent non-executive director of China Gem Holdings Limited (previously known as Yueshou Environmental Holdings Limited, Stock Code: 1191) from 17 July 2014 to 30 May 2018. All shares of which are listed on the Main Board of the Stock Exchange.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Pang Wing Hong, aged 48, was appointed as chief financial officer and one of the joint company secretaries on 19 October 2015 and has over 20 years of solid experience in financial management, accounting, auditing and corporate finance with strong comprehension of the China and international markets. He holds a Bachelor of Business Administration degree, majoring in professional accountancy, from The Chinese University of Hong Kong and a Master of Business Administration degree from The University of Adelaide, Australia. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

Ms. Ding Wanwan, aged 45, is the head of the production center of our Group and is primarily responsible for our supply chain management. Ms. Ding joined our Group in March 2000. She completed the training program for senior manager by Executive Development Program Center, School of Management, Xiamen University (廈門大學管理學院高層管理培訓中心) in June 2012.

JOINT COMPANY SECRETARIES

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

Ms. Lu Yanping, aged 31, was appointed as one of the joint company secretaries of our company on 16 December 2013. Ms. Lu joined our Group in July 2010. She is mainly responsible for providing assistance to the Chairman of the Company in the discharge of his duties and responsibilities as chairman of the Board, including coordination of board meeting and preparation of board minutes.

The Directors hereby present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL PLACE OF BUSINESS

The Company was incorporated in the Cayman Islands. The Group's principal place of business is in the PRC.

PRINCIPAL ACTIVITIES

The principal activities of the Group are wholesaling and retailing of branded children's apparel in the PRC. The principal activities and other particulars of the subsidiaries are set out in note 35 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2018, aggregate sales to the Group's largest and five largest customers accounted for 9.4% (2017: 12.4%) and 31.2% (2017: 38.4%), respectively, of the Group's total turnover for the year.

During the year ended 31 December 2018, aggregate purchases from the Group's largest and five largest suppliers of raw materials and OEM products accounted for 16.5% (2017: 14.2%) and 57.2% (2017: 50.7%), respectively, of the Group's total purchases for the year.

At no time during the year have the Directors, their close associates or any Shareholder of the Company (who or which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2018 are provided in the Chairman's Statement, Management's Discussion and Analysis, the ESG Report and Corporate Governance Report of this annual report.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the latest five financial years is set out on page 142 of the annual report. This summary does not form part of the audited consolidated financial statements.

FINANCIAL STATEMENTS

The loss of the Group for the year ended 31 December 2018 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 62 to 141 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year ended 31 December 2018 are set out in note 11 to the consolidated financial statements.

RESERVES

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

DISTRIBUTABLE RESERVES

The distributable reserve of the Company as at 31 December 2018 was RMB258,524,000 (2017: RMB228,368,000) as calculated based on the Company's share premium and capital reserves and accumulated profit under applicable provisions of the Companies Law in the Cayman Islands.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

No interim dividend was paid for the year of 2018 (2017: Nil).

CHARITABLE DONATIONS

No charitable donations were made by the Group during the year of 2018 (2017: Nil).

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 26 to the financial statements.

PRINCIPAL RISKS AND UNCERTAINTIES

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

(i) Fashion risk

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

(ii) Intense competition

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

(iii) Macroeconomic environment

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

(iv) Supply chain

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

(v) Financial health of our distributors

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

(vi) Information system

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

(vii) Reputational risk

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

(viii) Weather

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

KEY RELATIONSHIPS

(i) Employees

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

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

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

(ii) Suppliers

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

(iii) Distributors

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

(iv) Customers

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

ENVIRONMENTAL POLICIES

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

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in the mainland China while the Company itself is listed on the Stock Exchange. Our establishment and operations accordingly shall comply with relevant laws and regulations in the mainland China and Hong Kong. During the year ended 31 December 2018 and up to the date of this report, we have complied with all the relevant laws and regulations in the Mainland China and Hong Kong.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands where the Company was incorporated.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period from 1 January to 31 December 2018.

DIRECTORS

The Directors during the financial year were:

Executive Directors

Mr. Ding Peiji *(Chairman)*
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)

Each of the executive Directors of the Company has entered into a service contract with the Company for an initial term of three years commencing on the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other which notice shall not expire until after the fixed term. Each of the independent non-executive Directors has entered into an appointment letter with the Company for an initial term of three years commencing on the date of appointments. Each of the Directors will be subject to retirement and re-election at annual general meeting in accordance with the Company's articles of association. The details of the remuneration of each of the Directors are revealed on note 8 to the financial statements.

Details of the Directors' biographies have been set out on pages 38 to 40 of the annual report. In accordance with article 84 of the Company's articles of association, Ms. Ding Lizhen, Mr. Chan Wai Wing and Mr. Wu Shiming retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

DIRECTORS' SERVICE CONTRACTS

None of the Directors has or proposed to have an unexpired service contract with the Group which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year ended 31 December 2018.

RELATED PARTY TRANSACTION

Details of the significant related party transactions entered into by the Group during the year ended 31 December 2018 are set out in note 30 to the consolidated financial statements. To the best knowledge of the Directors, none of these related party transactions constitute connected transactions or continuing connected transactions that need to be disclosed under the Listing Rules.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

The Shares of the Company were listed on the Main Board of the Stock Exchange on 15 January 2014. As at 31 December 2018, the interests or short positions of the Directors and the chief executive in the Company's shares, underlying shares and debentures of the associated corporations of the Company, within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**") which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code, will be as follows:

Interests and short positions in the shares, underlying shares and debentures and associated corporations:

Long positions in the Company

Name of Directors	Nature of interest	Capacity	Number of Shares	Approximate percentage of shareholding(7)
Mr. Ding Peiji(1)	L(4)	Interest in a controlled corporation	247,076,694	25.11%
		Beneficial owner	900,000(6)	0.09%
Ms. Ding Lizhen(2)	L(4)	Interest in a controlled corporation	42,240,000	4.29%
		Beneficial owner	800,000(5)	0.08%
		Beneficial owner	9,000,000(6)	0.91%
Mr. Ding Peiyuan(3)	L(4)	Interest in a controlled corporation	42,240,000	4.29%
		Beneficial owner	800,000(5)	0.08%
		Beneficial owner	9,600,000(6)	0.91%

Notes:

(1) Think Wise Holdings Investment Limited ("**Think Wise**") is wholly-owned and controlled by Mr. Ding Peiji. 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) Each of Mr. Ding Peiji, Ms. Ding Lizhen and Mr. Ding Peiyuan, an executive Director, has been granted an option to subscribe for 900,000, 9,000,000 and 9,600,000 Shares respectively under the Share Option Scheme granted on 2 November 2018.

(7) The calculation is based on the total number of 984,000,000 ordinary Shares of the Company in issue as at 31 December 2018, without taking into account 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.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2018, none of the Directors and the chief executives of the Company and their respective close associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

The Shares of the Company were listed on the Main Board of the Stock Exchange on 15 January 2014. As at 31 December 2018, the persons or corporations other than a Director or chief executive of the Company who had an interest or short position in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Nature of interest	Capacity	Number of Shares	Approximate percentage of shareholding[(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%
		Beneficial owner	900,000[(6)]	0.09%
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%
		Beneficial owner	9,000,000[(6)]	0.91%
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%
		Beneficial owner	9,600,000[(6)]	0.91%
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) Each of Mr. Ding Peiji, Ms. Ding Lizhen and Mr. Ding Peiyuan, an executive Director, has been granted an option to subscribe for 900,000, 9,000,000 and 9,600,000 Shares respectively under the Share Option Scheme granted on 2 November 2018.

(7) The calculation is based on the total number of 984,000,000 ordinary Shares in issue as at 31 December 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.

(8) 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 31 December 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 OF SIGNIFICANCE

Save as disclosed in note 30 to the financial statements, no contract of significance in relation to the Group's business to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

DIRECTORS' INDEMNITIES AND INSURANCE

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

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

CONTRACTS WITH CONTROLLING SHAREHOLDERS

Save as disclosed in note 30 to the financial statements, there had been no contract of significance between the Company or any of its subsidiaries and controlling Shareholders (as defined in the Listing Rules) of the Company or any of its subsidiaries or any contract of significance for the provision of services to the Company or any of its subsidiaries by the controlling Shareholders of the Company or any of its subsidiaries during the year.

COMPETING BUSINESS

None of the Directors of the Company had any interests in any business which competes or are likely compete, either directly or indirectly, with the business of the Company or any of its subsidiaries during the year. Each of Mr. Ding Peiji and Think Wise (the controlling Shareholders (within the meaning of the Listing Rules) of the Company) has confirmed to the Company that he/it has complied with the non-compete undertaking given by them to the Company on 16 December 2013. The independent non-executive Directors of the Company have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with during the year.

EQUITY-SETTLED SHARE BASED PAYMENTS

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

Pre-IPO Share Option Scheme

The Company adopted the Pre-IPO Share Option Scheme on 27 December 2013 for the purpose of giving our employees an opportunity to have a personal stake in our Company and help motivate our employees to optimize their performance and efficiency, and also to retain our employees whose contributions are important to the long-term growth and profitability of our Group. Options to subscribe for an aggregate of 7,000,000 Shares were conditionally granted to 21 participants on 27 December 2013 (the "**Pre-IPO Share Options**"). The exercise price per Share is HK$1.82, being 80% of the global offering price. No further options could be granted under the Pre-IPO Share Option Scheme on or after the Listing Date. Each Pre-IPO Share Option has an eight-year exercise period and can only be exercised in the following manner:

Period within which option can be exercised	Maximum percentage of entitlement
Any time after the first anniversary of the Listing Date	30% of the Pre-IPO Share Options granted
Any time after the second anniversary of the Listing Date	30% of the Pre-IPO Share Options granted
Any time after the third anniversary of the Listing Date	40% of the Pre-IPO Share Options granted

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

	Number of Pre-IPO Share Options				
Name	**As at 1 January 2018**	**Granted during the year**	**Exercised during the year**	**Forfeited during the year**	**As at 31 December 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 director and independent non-executive directors) of the Company or any of its subsidiaries；any direct or indirect Shareholder of the Company or any of its subsidiaries；and any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the shares in issue as at the Listing Date, i.e. 80,000,000 shares of the Company. Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

(i) renew this limit at any time to 10% of the shares in issue as at the date of the approval by the Shareholders in general meeting；and/or

(ii) grant options beyond the 10% limit to eligible participants specifically identified by the Board.

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

REPORT OF THE DIRECTORS

The maximum number of shares issuable upon the exercise of options granted under the Share Option Scheme and any other share option scheme adopted by the Group (including both exercised or outstanding options) to each grantee within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of options in excess of this 1% limit shall be subject to: (i) the issue of a circular by the Company ; and (ii) the approval of the Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time.

Share options granted to a Director, chief executive or substantial Shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors of the Company. In addition, any share options granted to a substantial Shareholder or an independent non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to Shareholders' approval in advance in a general meeting.

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

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

Details of movement in the share options as at 31 December 2018 which have been granted under the Share Option Scheme are as follows:

Name	Outstanding as at 1 January 2018	Granted during the year ended 31 December 2018	Exercised during the year ended 31 December 2018	Cancelled during the year ended 31 December 2018	Outstanding during the year ended 31 December 2018	Exercise Price	Date of grant	Exercisable period
Directors								
Mr. Ding Peiji	–	900,000	–	–	900,000	0.107	2 November 2018	2 November 2019 - 1 November 2028
Ms. Ding Lizhen	–	9,000,000	–	–	9,000,000	0.107	2 November 2018	2 November 2019 - 1 November 2028
Mr. Ding Peiyuan	–	9,600,000	–	–	9,600,000	0.107	2 November 2018	2 November 2019 - 1 November 2028
Mr. Hung Cho Sing	–	900,000	–	–	900,000	0.107	2 November 2018	2 November 2019 - 1 November 2028
Mr. Chan Wai Wong	–	900,000	–	–	900,000	0.107	2 November 2018	2 November 2019 - 1 November 2028
Mr. Wu Shiming	–	900,000	–	–	900,000	0.107	2 November 2018	2 November 2019 - 1 November 2028
Employees and others	–	57,800,000	–	–	57,800,000	0.107	2 November 2018	2 November 2019 - 1 November 2028
Total	–	80,000,000	–	–	80,000,000			

As at the date of this report, no share option granted the Share Option Scheme were lapsed during the year ended 31 December 2018.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in "Equity-settled Share Based Payments" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

RETIREMENT SCHEMES

The Group participates in defined contribution retirement benefit schemes organized by the PRC municipal and provincial government authorities for the Group's eligible employees in the PRC, and operates a Mandatory Provident Fund scheme for the employees in Hong Kong. Particulars of these retirement plans are set out in note 24 to the financial statements.

DIVIDEND POLICY

The Company has adopted a dividend policy that aims to enhance transparency of the Company and facilitate Shareholders and investors to make informed investment decisions in relation to the Company (the "**Dividend Policy**").

According to the Dividend Policy, the Board shall take into account, inter alia, the following factors in deciding whether to propose a dividend and in determining the dividend amount:

(i) the Group's financial results;
(ii) the financial condition of the Group;
(iii) future cash requirements and availability for business operations, business strategies and future development needs;
(iv) any restrictions on payment of dividends that may be imposed by the Group's lenders;
(v) the retained earnings and distributable reserves of the Company and each of the members of the Group;
(vi) the general market conditions; and
(vii) any other factors that the Board may consider appropriate.

The payment of the dividend by the Company is also subject to any restrictions under the applicable laws and the relevant provisions of articles of association of the Company.

Any declaration and/or payment of future dividends under the Dividend Policy are/is subject to the Board's determination and would be in the best interests of the Group and the Shareholders as a whole. The Board will review the Dividend Policy from time to time.

EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting period of the Group.

AUDITORS

Following the resignation of KPMG ("**KPMG**") as auditors of the Company on 21 April 2016, HLB Hodgson Imprey Cheng Limited ("**HLB**") was appointed as the auditors of the Company on 29 April 2016 to fill in the vacancy.

Save as disclosed above, there were no other changes in the auditors of the Company during the past three years.

The consolidated financial statements of the Company for the years ended 31 December from 2015 onwards were audited by HLB, who will retire at the AGM and a resolution for its re-appointment as the auditors of the Company will be proposed at the forthcoming AGM.

APPRECIATION

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

On behalf of the Board

Ding Peiji
Chairman

Hong Kong, 8 March 2019

INDEPENDENT AUDITORS' REPORT

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

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

TO THE SHAREHOLDERS OF MIKO INTERNATIONAL HOLDINGS LIMITED
(Incorporated in the Cayman Islands limited liability)

OPINION

We have audited the consolidated financial statements of Miko International Holdings Limited (the "**Company**") and its subsidiaries (together the "**Group**") set out on pages 62 to 141, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of retail outlets business **Refer to notes 2, 3, 12 and 14 to the consolidated financial statements**	
The Group has goodwill and intangible assets of approximately RMB27,712,000 and RMB43,952,000 respectively relating to the retail outlets business as at 31 December 2018. Management performed impairment assessment of the retail outlets business and concluded that an impairment loss on goodwill of approximately RMB16,671,000 was recognised. This conclusion was based on value in use model that required significant management judgement with respect to the discount rate and the underlying cashflows, in particular future revenue growth and capital expenditure. Independent external valuation were obtained in order to support management estimates.	Our procedures in relation to management's impairment assessment included: • Evaluating the independent value's competence, capabilities and objectively; • Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the relevant industry and using our valuation experts; • Challenging the reasonableness of key assumption based on our knowledge of the business and industry; and • Checking, on sampling basis, the accuracy and relevance of the input data used. We found the key assumptions were supported by the available evidence.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade receivables **Refer to note 2, 3 and 18 to the consolidated financial statements**	
As at 31 December 2018, the Group had gross trade receivables of approximately RMB179,775,000 (2017: RMB269,279,000) and provision for impairment of approximately RMB39,969,000. Management performed periodic assessment on the recoverability of the trade receivables and the sufficiency of provision for impairment based on information including credit profile of different customers, ageing of the trade receivables, historical settlement records, subsequent settlement status, expected timing and amount of realisation of outstanding balances, and on-going trading relationships with the relevant customers. Management also considered forward looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses for the impairment assessment. We focused on this area due to the impairment assessment of trade receivables under the expected credit losses model involved the use of significant management judgements and estimates.	Our procedures in relation to independent professional valuer's ECL assessment on trade receivable included: • Understanding and evaluating the key controls that the Group has implemented to manage and monitor its credit risk, and validating the control effectiveness on a sample basis; • Checking, on a sample basis, the ageing profile of the trade receivables as at 31 December 2018 to the underlying financial records and post year-end settlements to bank receipts; • Inquiring of management for the status of each of the material trade receivables past due as at year end and corroborating explanations from management with supporting evidence, such as performing public search of credit profile of selected customers, understanding on-going business relationship with the customers based on trade records, checking historical and subsequent settlement records of and other correspondence with the customers; and • Assessing the appropriateness of the expected credit loss provisioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the expected credit losses. We found that the management judgment and estimates used to assess the recoverability of the trade receivables and determine the impairment provision to be supportable by available evidence.

Key audit matter **How our audit addressed the key audit matter**

Key audit matter	**How our audit addressed the key audit matter**
Carrying value of inventories **Refer to note 17 to the consolidated financial statements**	
As at 31 December 2018, the Group had inventories of RMB69,414,000. Because of the changing market conditions, significant judgement and estimation by management are involved in identifying inventories with net realisable values that are lower than their costs, and obsolescence, with reference to the estimated subsequent selling prices and salability of inventories, and the prevailing children's apparel sales trend in Mainland China. As a result, a written down on inventories of approximately RMB25,364,000 was recognised.	Our procedures in relation to management's impairment assessment included: • Obtaining an understanding of how the inventory obsolescence provision is estimated by the management; • We evaluated management's assessment of obsolescence of inventories with reference to their ageing, the condition of inventories during our observation of physical inventory count, and the historical and prevailing sales trend of children's apparel products; • Selecting samples of inventories and reviewing their net realisable values with reference to their selling prices subsequent to the end of the reporting period and the Group's pricing strategy, including any management's plan for significant discounts to be offered which may affect the net realisable values of these inventory items. We found the management's assessment on the net realisable values for the allowance for inventories, to be conservative.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon ("**Other Information**").

Our opinion on the consolidated financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other information and, in doing so, consider whether the Other Information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement director on the audit resulting in this independent auditors' report is Shek Lui.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Shek Lui
Practising Certificate Number: P05895

Hong Kong, 8 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018 (Expressed in Renminbi)

	Note	**2018 RMB'000**	2017 RMB'000
Turnover	4	**214,435**	334,741
Cost of sales		**(175,772)**	(268,172)
Gross profit		**38,663**	66,569
Other revenue	5	**2,480**	11,542
Other net (loss)/gain	5	**(48)**	36
Share of results from an associate		**880**	557
Written down on inventories		**(25,364)**	(25,451)
Impairment loss recognised on trade receivables	18	**(8,093)**	(55,134)
Impairment loss recognised on goodwill	14	**(16,671)**	(16,213)
Selling and distribution expenses		**(128,346)**	(96,092)
Administrative and other operating expenses		**(57,442)**	(36,202)
Loss from operations		**(193,941)**	(150,388)
Finance costs	6(a)	**(7,557)**	(4,899)
Loss before taxation	6	**(201,498)**	(155,287)
Income tax	7(a)	**(188)**	16
Loss for the year attributable to shareholders of the Company		**(201,686)**	(155,271)
Other comprehensive (loss)/income for the year			
Item that may by reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of overseas subsidiaries		**(392)**	1,102
Total comprehensive loss for the year attributable to shareholders of the Company		**(202,078)**	(154,169)
Loss per share, basic and diluted (RMB cents)	10(a)	**(21)**	(19)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018 (Expressed in Renminbi)

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	11	**96,394**	95,312
Intangible assets	12	**43,952**	62,317
Lease prepayments	13	**2,589**	2,677
Deposits for purchase of property, plant and equipment		**282**	16,157
Goodwill	14	**27,712**	44,383
Deferred tax assets	15(b)	**1,904**	2,092
Investment in an associate	16	**46,437**	45,557
		219,270	268,495
Current assets			
Inventories	17	**69,414**	105,762
Trade receivables	18	**139,806**	216,320
Prepayments, deposits and other receivables	19	**118,228**	82,183
Fixed deposits at banks with original maturity over three months	20(a)	**40,000**	107,000
Cash and cash equivalents	20(a)	**3,555**	1,972
		371,003	513,237
Current liabilities			
Bank loans	21	**62,000**	56,950
Trade and other payables	22	**14,017**	37,815
Current tax payable	15(a)	**–**	61
Convertible bonds	23	**32,147**	–
		108,164	94,826
Net current assets		**262,839**	418,411
Total assets less current liabilities		**482,109**	686,906
Non-current liabilities			
Deferred tax liabilities	15(b)	**1,300**	1,300
Convertible bonds	23	**–**	27,825
		1,300	29,125
Net assets		**480,809**	657,781

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018 (Expressed in Renminbi)

	Note	**2018 RMB'000**	2017 RMB'000
Equity			
Share capital	26	**7,833**	6,483
Reserves		**472,976**	651,298
Total equity		**480,809**	657,781

Approved and authorised for issued by the board of directors on 8 March 2019:

Director
Ding Peiji

Director
Ding Peiyuan

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018 (Expressed in Renminbi)

	Note	Share capital RMB'000 26(b)	Share premium RMB'000 26(c)(i)	Share-based payment reserve RMB'000 26(c)(iv)	Capital reserve RMB'000 26(c)(v)	Convertible bond reserve RMB'000 26(c)(vi)	Exchange reserve RMB'000 26(c)(iii)	Statutory reserve RMB'000 26(c)(ii)	Retained profits/ (accumulated loss) RMB'000	Total RMB'000
Balance at 1 January 2017		6,483	246,825	5,530	145,549	–	8,674	58,134	327,106	798,301
Change in equity for 2017:										
Loss for the year		–	–	–	–	–	–	–	(155,271)	(155,271)
Other comprehensive income		–	–	–	–	–	1,102	–	–	1,102
Total comprehensive loss		–	–	–	–	–	1,102	–	(155,271)	(154,169)
Recognition of equity component of convertible bonds		–	–	–	–	13,641	–	–	–	13,641
Equity-settled share-based transaction		–	–	8	–	–	–	–	–	8
Lapse of share options		–	–	(211)	–	–	–	–	211	–
Balance at 31 December 2017		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		–	–	–	–	–	–	–	(2,139)	(2,139)
Adjusted balance at 1 January 2018		**6,483**	**246,825**	**5,327**	**145,549**	**13,641**	**9,776**	**58,134**	**169,907**	**655,642**
Change in equity for 2018:										
Loss for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(201,686)**	**(201,686)**
Other comprehensive loss		**–**	**–**	**–**	**–**	**–**	**(392)**	**–**	**–**	**(392)**
Total comprehensive loss		**–**	**–**	**–**	**–**	**–**	**(392)**	**–**	**(201,686)**	**(202,078)**
Issue of ordinary shares		**1,350**	**25,743**	**–**	**–**	**–**	**–**	**–**	**–**	**27,093**
Less: Share issue expense		**–**	**(363)**	**–**	**–**	**–**	**–**	**–**	**–**	**(363)**
Equity-settled share-based transaction		**–**	**–**	**515**	**–**	**–**	**–**	**–**	**–**	**515**
Balance at 31 December 2018		**7,833**	**272,205**	**5,842**	**145,549**	**13,641**	**9,384**	**58,134**	**(31,779)**	**480,809**

CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2018 (Expressed in Renminbi)

	Note	2018 RMB'000	2017 RMB'000
Operating activities			
Cash used in operations	20(b)	**(73,207)**	(51,255)
Income tax paid		**(61)**	(7)
Net cash used in operating activities		**(73,268)**	(51,262)
Investing activities			
Payment for the purchase of property, plant and equipment		**(5,114)**	(7,007)
Receipt of fixed deposits at banks with original maturity over three months		**67,000**	94,300
Interest received	5	**1,918**	982
Capital injection of investment in an associate		**–**	(45,000)
Net cash outflow for acquisition of distribution channels	27	**–**	(14,606)
Net cash generated from investing activities		**63,804**	28,669
Financing activities			
Net proceed from issue of shares		**26,730**	–
Proceeds from bank loans		**62,000**	56,950
Repayment of bank loans		**(56,950)**	(49,300)
(Repayment to)/net advance from related parties		**(16,881)**	5,031
Interest paid	6(a)	**(3,235)**	(2,850)
Net cash generated from financing activities		**11,664**	9,831
Net increase/(decrease) in cash and cash equivalents		**2,200**	(12,762)
Cash and cash equivalents at 1 January		**1,972**	12,541
Effect of foreign exchange rate changes		**(617)**	2,193
Cash and cash equivalents at 31 December	20(a)	**3,555**	1,972

The notes on pages 67 to 141 form part of these consolidated financial statements.

1. GENERAL INFORMATION

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations issued by International Accounting Standards Board ("**IASB**"). These consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in the consolidated financial statements.

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "**Group**").

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the consolidated financial statements (Continued)

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

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

(c) 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.

Amendment to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendment to IFRS 4	Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts
IFRS 9	Clarifications to IFRS 9 Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Amendment to IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers
Amendment to IAS 28	As part of the Annual Improvements to IFRSs 2014-2016 Cycle
Amendment to IAS 40	Transfers of investment property
IFRIC – Int 22	Foreign currency transactions and advance consideration

Except as described below, the application of the new and amendments to IFRSs, in the current year has had no material impact on the Group's financial performance and positions for the current and prior periods and/or the disclosures set out in the consolidated financial statements.

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 as below.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

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

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 derecognised 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 recognised 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".

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.

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 RMB'000	**Impact on initial application of IFRS 9** RMB'000	**At 1 January 2018** RMB'000
Trade receivables	216,320	(2,139)	214,181
Reserves	(651,298)	2,139	(649,159)

Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Except for those which had been determined as credit impaired under IAS 39, the remaining balances are grouped based on internal credit rating and/or past due analysis. The Group has therefore estimated the expected loss rates for the trade receivables on the same basis.

Except for those which had been determined as credit impaired under IAS 39, ECL for other financial assets at amortised cost, including deposit, other receivables and bank balances, are assessed on 12-month ECL ("**12m ECL**") basis as there had been no significant increase in credit risk since initial recognition.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

Impairment under ECL model (Continued)

All loss allowances including trade receivables and other financial assets at amortised cost as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follows:

	Trade receivables *RMB'000*
At 31 December 2017	
– IAS 39	52,959
Amounts re-measured through opening retained profits	2,139
At 1 January 2018	55,098

Impacts and changes in accounting policies of application on IFRS 15 "Revenue from Contracts with Customers and the related amendments"

IFRS 15 was generally adopted without restating any other comparative information. The adoption of IFRS 15 in the current period does not result in any impact on the amounts reported in the consolidated financial information and/or disclosures set out in the consolidated financial information except that, the Group has adopted the following accounting policies on revenues with effect from 1 January 2018.

IFRS 15 requires that revenue from contracts with customers be recognised upon the transfer of control over goods or services to the customer. As such, upon adoption, this requirement under IFRS 15 resulted in immaterial impact to the financial statements as the timing of revenue recognition on sale of goods is nearly unchanged. Thus there was no impact on the Group's consolidated statement of financial position as of 1 January 2018.

Information about the Group's performance obligations and the accounting policies resulting from application of IFRS15 are disclosed in note 2(v) to the consolidated financial statements.

IFRS 15 was generally adopted without restating any other comparative information. There is no impact of transition to IFRS 15 on retained earnings at 1 January 2018.

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flow and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(k)(ii)).

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Derivative financial instruments

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

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(k)(ii)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 20 years after the date of competition.

– Leasehold improvement	Over lease terms
– Machinery	10 years
– Motor vehicles	5 years
– Furniture, fixtures and equipment	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

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

(g) Lease prepayments

Lease prepayments represent cost of acquiring land use rights paid to the People Republic of China ("**PRC**")'s governmental authorities. Land use rights are carried at cost less accumulated amortisation and impairment losses (see note 2(k)(ii)). Amortisation is charged to profit or loss on a straight line basis over the respective periods of the rights.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(k)(ii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives.

Computer software is amortised from the date they are available for use for 10 years.

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

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

Intangible assets acquired in a business combination

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

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

(i) Interest in associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Noncurrent Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Interest in associate (Continued)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Operating lease charges

Leases are classified as finance leases Whenever the terms of the lease transfer substantially, all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

(k) Impairment of assets other than goodwill

(i) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– lease prepayments;

– intangible assets;

– investment in a subsidiary; and

– investment in an associate.

If any such indication exists, the asset's recoverable amount is estimated.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use, (if determinable).

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(i) Impairment of other assets (Continued)

– *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

(ii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(k)(i) and (ii)).

(l) Business combinations

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Business combinations (Continued)

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

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

(m) Goodwill

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any writedown of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any writedown of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter are stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(ee)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(q) Trade and other payables

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

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to eligible persons is recognised as an expense with a corresponding increase in the share-based payment reserve within equity. The fair value is measured at the grant date using the binomial model, taking into account the terms and conditions upon which the options are granted. Where the eligible persons have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review with a corresponding adjustment to the share-based payment reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share-based payment reserve). The equity amount is recognised in the share-based payment reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(t) Income tax

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Income tax (Continued)

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Income tax (Continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

– the same taxable entity; or

– different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(u) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(v) Revenue and other income

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 2)

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Revenue and other income (Continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. A contract asset and a contract liability relating to a contract are accounted for an presented on a net basis.

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

(i) Sale of goods

Revenue is recognised when the control of the goods are considered to have been transferred to the customer.

In the comparative period, revenue from sales of goods was recognised when the customer has accepted the related risks and rewards of ownership.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

(iii) Rental income

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

Rental income which are derived from the Group's ordinary course of business are presented as other revenue.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal installments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(x) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations with functional currency other than RMB are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in the exchange reserve in equity.

(y) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(z) Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. Other development expenditure is recognised as an expense in the period in which it is incurred.

(aa) Dividends

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

(bb) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(cc) Segment reporting

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

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

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

(dd) Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the consolidated statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in convertible bond reserve, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

(ee) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since 1st January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ee) Financial instruments (Continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest and dividend income which are derived from the financial assets and shareholders' rights are presented as other revenue and other income.

Financial assets

Classification and subsequent measurement of financial assets (upon application of IFRS 9)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ee) Financial instruments (Continued)

***Financial assets** (Continued)*

Classification and subsequent measurement of financial assets (upon application of IFRS 9) (Continued)

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other revenue and other income" line item.

Impairment of financial assets (upon application of IFRS 9 in accordance with transition in note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade receivables, deposit paid, other receivables, loan receivables, time deposits, loan to director and cash and bank balances). The amount of ECL is updated at each reporting period 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, 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 period. Assessment are done 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 period as well as the forecast of future conditions.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ee) Financial instruments (Continued)

***Financial assets** (Continued)*

Impairment of financial assets (upon application of IFRS 9)

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised 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 period 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, the credit default swap prices for the debtor;
- 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 has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ee) Financial instruments (Continued)

Financial assets *(Continued)*

Impairment of financial assets (upon application of IFRS 9) (Continued)

Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 60 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 1 year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ee) Financial instruments (Continued)

***Financial assets** (Continued)*

Impairment of financial assets (upon application of IFRS 9) (Continued)

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. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

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

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables and amounts due from customers are each assessed as a separate group. Loans to related parties are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

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.

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)

Financial assets and financial liabilities are recognised when an entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at "fair value through profit or loss" ("**FVTPL**")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ee) Financial instruments (Continued)

***Financial assets** (Continued)*

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018) (Continued)

Financial assets are classified into the following specified categories: financial assets at FVTPL, "held-to-maturity" investments, "available-for-sale" financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivable, other receivables and deposits, fixed deposits at banks with original maturity as well as cash and cash equivalents) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– breach of contract, such as a default or delinquency in interest or principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

– the disappearance of an active market for that financial asset because of financial difficulties.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ee) Financial instruments (Continued)

***Financial assets** (Continued)*

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018) (Continued)

*Impairment of financial assets **(Continued)***

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Financial liabilities

Other financial liabilities

Other financial liabilities (including trade and other payables, bank loans and convertible bonds) are subsequently measured at amortised cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ee) Financial instruments (Continued)

***Derecognition** (Continued)*

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. ACCOUNTING JUDGEMENT AND ESTIMATES

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

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(a) Net realisable value of inventories

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

3. ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

(b) Impairment of property, plant and equipment

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

(c) Provision of ECL for trade receivables

The loss allowances for financial assets at amortised cost are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's financial assets at amortised cost are disclosed in note 28(a).

(d) Provision for deferred tax

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

(e) Impairment of goodwill and intangible asset

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

4. TURNOVER AND SEGMENT INFORMATION

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

Segment revenue and results:

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

	Wholesalers		Retail outlets		Total	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Revenue from external customers	**142,627**	294,742	**71,808**	39,999	**214,435**	334,741
Inter-segment revenue	**65,954**	34,495	**–**	–	**65,954**	34,495
Reportable segment revenue	**208,581**	329,237	**71,808**	39,999	**280,389**	369,236
Segment results	**(102,757)**	(52,203)	**(26,926)**	(7,708)	**(129,683)**	(59,911)
Written down on inventories	**(25,364)**	(25,451)	**–**	–	**(25,364)**	(25,451)
Bad debts written off on trade receivables	**(12,359)**	–	**–**	–	**(12,359)**	–
Impairment loss recognised on trade receivables	**(8,084)**	(55,134)	**(9)**	–	**(8,093)**	(55,134)
Impairment loss recognised on goodwill	**–**	–	**(16,671)**	(16,213)	**(16,671)**	(16,213)
Other revenue					**2,480**	11,542
Other net (loss)/gain					**(48)**	36
Share of results from an associate					**880**	557
Central administration costs					**(5,083)**	(5,814)
Finance costs					**(7,557)**	(4,899)
Loss before taxation					**(201,498)**	(155,287)

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

Revenue from contracts with customers are recognised at a point in time.

4. TURNOVER AND SEGMENT INFORMATION (Continued)

The accounting policies of the operating segments are the same as the Group's accounting polices described in note 2 to the consolidated financial statements. Segment results represent loss recorded by each segment without allocation of other revenue, other net (loss)/gain, share of results from an associate, finance costs and central administrative costs including directors' remuneration. 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:

	Wholesalers		**Retail outlets**		**Total**	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Segment assets	**452,187**	624,544	**90,517**	111,481	**542,704**	736,025
Unallocated assets					**47,569**	45,707
Total assets					**590,273**	781,732
Segment liabilities	**73,891**	75,199	**1,037**	1,053	**74,928**	76,252
Unallocated liabilities					**34,536**	47,699
Total liabilities					**109,464**	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 Group which therole are investment holding company. Goodwill and intangible assets are allocated to reportable segments; and

– all liabilities are allocated to reportable segments other than liabilities held by the Group which the role are investment holding company.

Other segment information:

	Wholesalers		**Retail outlets**		**Total**	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Capital expenditure*	**10,834**	18,320	**470**	20,165	**11,304**	38,485
Depreciation	**8,150**	6,187	**1,092**	716	**9,242**	6,903
Loss on disposal of property, plant and equipment	**385**	795	**595**	130	**980**	925

* Capital expenditure consists of additions to property, plant and equipment and intangible assets including assets from the acquisition of distribution channels.

4. TURNOVER AND SEGMENT INFORMATION (Continued)

Geographical information:

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

	2018 **RMB'000**	2017 RMB'000
PRC	**214,435**	331,875
Overseas	**–**	2,866
	214,435	334,741

Information about major customers:

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

	2018 **RMB'000**	2017 RMB'000
Customer A*	**–**	41,573

For the year ended 31 December 2018, no other single customer contributed 10% or more to the Group's revenue.

* No information on turnover for the current year is disclosed for this customer since it contributed less than 10% to the Group's turnover for the year ended 31 December 2018.

5. OTHER REVENUE AND OTHER NET (LOSS)/GAIN

	2018 **RMB'000**	2017 RMB'000
Other revenue		
Interest income	**1,918**	982
Rental income	**562**	608
Reversal of impairment recognised on trade receivables	**–**	9,952
	2,480	11,542
Other net (loss)/gain		
Net foreign exchange (loss)/gain	**(48)**	36

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

		2018 RMB'000	2017 RMB'000
(a)	**Finance costs:**		
	Interest on bank loans	**3,235**	2,850
	Imputed interest on convertible bonds	**4,322**	2,049
		7,557	4,899
(b)	**Staff costs (including directors remuneration):**		
	Contributions to defined contribution retirement plans	**2,891**	2,766
	Salaries, wages and other benefits	**32,723**	31,709
	Equity-settled share-based payment expenses (note 25)	**515**	8
		36,129	34,483
(c)	**Other items:**		
	Amortisation		
	– lease prepayments	**88**	88
	– intangible assets	**18,365**	17,908
	Depreciation	**9,242**	6,903
	Auditors' remuneration		
	– Audit services	**1,308**	1,344
	– Non-audit services	**–**	286
	Loss on disposal of property, plant and equipment	**980**	925
	Written down on inventories	**25,364**	25,451
	Bad debts written off on trade receivables	**12,359**	–
	Impairment loss recognised on trade receivables	**8,093**	55,134
	Operating lease charges in respect of properties	**145**	160
	Research and development expenses	**11,095**	12,196
	Cost of inventories sold#	**175,772**	268,172

Cost of inventories for the year ended 31 December 2018 includes RMB9,878,000 (2017: RMB19,909,000) relating to staff costs and depreciation, which amount is also included in the respective total amounts disclosed separately in notes 6(b) and (c) above for each of these types of expenses.

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

Loss before taxation is arrived at after charging:

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

	2018 RMB'000	2017 RMB'000
Current tax		
– PRC corporate income tax	**–**	67
Deferred tax		
– Origination of temporary differences (note 15)	**188**	(83)
	188	(16)

(b) Reconciliation between tax expense/(credit) and accounting loss at applicable tax rates:

	2018 RMB'000	2017 RMB'000
Loss before taxation	**(201,498)**	(155,287)
Notional tax on profit before taxation, calculated at the standard tax rates applicable to the respective tax jurisdictions	**(49,619)**	(36,860)
Tax effect of income and expenses not taxable or deductible for tax purpose	**15,464**	13,034
Tax effect of unused tax losses not recognised	**34,343**	23,810
Tax expense/(credit)	**188**	(16)

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

(ii) No provision was made for Hong Kong Profits Tax as the Group did not earn any assessable profit subject to Hong Kong Profits Tax in 2017 and 2018.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25% and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of two-tiered profits tax rates regime as insignificant to the consolidated financial statements.

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

8. DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

Year ended 31 December 2018

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to defined contributions retirement plans RMB'000	Discretionary bonuses RMB'000	Sub-total RMB'000	Equity-settled share-based payments (Note d) RMB'000	Total RMB'000
Executive directors							
Mr. Ding Peiji *(Chairman)*	–	699	24	–	723	6	729
Mr. Ding Peiyuan	–	604	24	–	628	62	690
Ms. Ding Lizhen	–	604	8	–	612	58	670
Sub-total	–	1,907	56	–	1,963	126	2,089
Independent non-executive directors							
Mr. Hung Cho Sing	180	–	–	–	180	6	186
Mr. Chan Wai Wong	180	–	–	–	180	6	186
Ms. Wong Yan Ki, Angel (Note a)	97	–	–	–	97	–	97
Mr. Wu Shiming (Note b)	83	–	–	–	83	6	89
Sub-total	540	–	–	–	540	18	558
Total	540	1,907	56	–	2,503	144	2,647

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

8. DIRECTORS' REMUNERATION (Continued)

Year ended 31 December 2017

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to defined contributions retirement plans RMB'000	Discretionary bonuses RMB'000	Sub-total RMB'000	Equity-settled share-based payments (Note d) RMB'000	Total RMB'000
Executive directors							
Mr. Ding Peiji *(Chairman)*	100	961	32	–	1,093	–	1,093
Mr. Ding Peiyuan	100	866	30	–	996	2	998
Ms. Ding Lizhen	100	866	12	–	978	2	980
Sub-total	300	2,693	74	–	3,067	4	3,071
Independent non-executive directors							
Mr. Hung Cho Sing	156	–	–	–	156	–	156
Ms. Lo Wing Yan, Emmy (Note c)	84	–	–	–	84	–	84
Mr. Chan Wai Wong	156	–	–	–	156	–	156
Ms. Wong Yan Ki, Angel (Note a)	73	–	–	–	73	–	73
Sub-total	469	–	–	–	469	–	469
Total	769	2,693	74	–	3,536	4	3,540

Notes:

(a) Ms. Wong Yan Ki, Angel has been appointed as independent non-executive director on 15 July 2017 and resigned on 16 July 2018.

(b) Mr. Wu Shiming has been appointed as independent non-executive director on 16 July 2018.

(c) Ms. Lo Wing Yan, Emmy has been appointed as independent non-executive director on 14 April 2016 and resigned on 15 July 2017.

8. DIRECTORS' REMUNERATION (Continued)

Notes: (Continued)

(d) These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share- based payment transactions as set out in note 2(s)(ii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

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

During the year, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 9 as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. INDIVIDUAL WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2017: three) are directors whose remuneration is disclosed in note 8 above. The emoluments in respect of the remaining two individuals (2017: two) are as follows:

	2018	2017
	RMB'000	RMB'000
Salaries and other emoluments	**1,198**	1,423
Contributions to defined contribution retirement plans	**22**	21
	1,220	1,444

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

	2018	2017
	RMB'000	RMB'000
Nil to HK$1,000,000	**2**	1
HK$1,000,000 to HK$2,000,000	**–**	1

9. INDIVIDUAL WITH HIGHEST EMOLUMENTS (Continued)

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

	2018 **RMB'000**	2017 RMB'000
Nil to HK$1,000,000	**2**	1
H$1,000,000 to HK$2,000,000	**–**	1

10. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss for the year attributable to shareholders of the Company of RMB201,686,000 (2017: RMB155,271,000) and the weighted average of 962,521,000 ordinary shares (2017: 824,000,000 ordinary shares).

(b) Diluted loss per share

The effect of the Company's share options and convertible bond was anti-dilutive for the year ended 31 December 2018 and 2017, and therefore, diluted loss per share are the same as the basic loss per share.

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold Improvement RMB'000	Machinery RMB'000	Motor Vehicles RMB'000	Furniture, Fixtures and Equipment RMB'000	Total RMB'000
Cost:						
At 1 January 2017	117,732	3,410	8,404	7,433	4,226	141,205
Additions	–	10,856	7,448	–	16	18,320
Acquisition (note 27)	–	1,658	–	–	64	1,722
Disposals	–	(476)	(4,427)	(2,738)	(594)	(8,235)
At 31 December 2017 and 1 January 2018	117,732	15,448	11,425	4,695	3,712	153,012
Additions	7,818	–	–	1,115	2,371	11,304
Disposals	–	(1,652)	(1,020)	(1,179)	(2,379)	(6,230)
At 31 December 2018	125,550	13,796	10,405	4,631	3,704	158,086
Accumulated depreciation and impairment:						
At 1 January 2017	42,188	1,330	5,713	5,488	3,388	58,107
Charge for the year	4,167	1,175	934	509	118	6,903
Disposals	–	(354)	(3,984)	(2,464)	(508)	(7,310)
At 31 December 2017 and 1 January 2018	46,355	2,151	2,663	3,533	2,998	57,700
Charge for the year	4,115	2,660	1,150	511	806	9,242
Disposals	–	(1,112)	(976)	(1,038)	(2,124)	(5,250)
At 31 December 2018	50,470	3,699	2,837	3,006	1,680	61,692
Net book value:						
At 31 December 2018	75,080	10,097	7,568	1,625	2,024	96,394
At 31 December 2017	71,377	13,297	8,762	1,162	714	95,312

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

(b) Buildings with net book value of RMB65,006,000 as at 31 December 2018 (2017: RMB63,328,000) were pledged as collateral for the Group's bank loans (note 21).

(c) At 31 December 2018, all of the ownership certificates for buildings were obtained.

12. INTANGIBLE ASSETS

	Computed software RMB'000	Distribution channels RMB'000	Total RMB'000
Cost:			
At 1 January 2017	28,442	50,857	79,299
Acquisition (note 27)	–	18,443	18,443
At 31 December 2017, 1 January 2018 and 31 December 2018	28,442	69,300	97,742
Accumulated amortisation:			
At 1 January 2017	3,515	14,002	17,517
Charge for the year	2,836	15,072	17,908
At 31 December 2017 and 1 January 2018	6,351	29,074	35,425
Charge for the year	2,867	15,498	18,365
At 31 December 2018	9,218	44,572	53,790
Net book change:			
At 31 December 2018	19,224	24,728	43,952
At 31 December 2017	22,091	40,226	62,317

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

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

Computer software	10 years
Distribution channels	2–4¼ years

12. INTANGIBLE ASSETS (Continued)

Distribution channels

Red Kids (China) Limited ("**Red Kids (China)**"), an indirectly wholly-owned subsidiary of the Company, and independent third parties entered into distributor contracts. According to the distributor contracts, Red Kids (China) granted the independent third parties the exclusive distributorship of the "redkids" brand in the authorized geographic area (the "**Distributors**"). The Distributors have the rights to open new retail stores in the authorized areas to sell "redkids" products manufactured by the Red Kids China. The contractual terms are normally for two to four years.

Quanzhou Tuoyu Trade Company Limited (the "**Quanzhou Tuoyu**"), an indirect wholly owned subsidiary of the Company, and Red Kids (China) entered into acquisition agreements with the Distributors to acquire their distribution channels.

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

Since the right was originally granted to the Distributors by the Red Kids (China), the acquisition of the distribution channels from the Distributors constitute as an intangible asset.

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

13. LEASE PREPAYMENTS

	RMB'000
Cost:	
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	4,206
Accumulated amortisation:	
At 1 January 2017	1,441
Charge for the year	88
At 31 December 2017 and 1 January 2018	1,529
Charge for the year	88
At 31 December 2018	1,617
Net book value:	
At 31 December 2018	2,589
At 31 December 2017	2,677

Lease prepayments with net book value of RMB1,623,000 (2017: RMB1,678,000) as at 31 December 2018 were pledged as collateral for the Group's bank loans (note 21).

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

14. GOODWILL

	RMB'000
Cost:	
At 1 January 2017	44,536
Acquisition (note 27)	33,860
At 31 December 2017, 1 January 2018 and 31 December 2018	78,396
Accumulated impairment:	
At 1 January 2017	17,800
Impairment for the year	16,213
At 31 December 2017 and 1 January 2018	34,013
Impairment for the year	16,671
At 31 December 2018	50,684
Net book value:	
At 31 December 2018	27,712
At 31 December 2017	44,383

Note:

Goodwill arose from the acquisitions of distribution channels. Goodwill was allocated to the groups of cash-generating units identified according to the operations, which was substantially allocated to the investment in retails outlets.

At the end of the reporting period, the Group assessed the recoverable amount of cash generating unit to which the goodwill is allocated by appointing an independent professional valuer, who has staff members with appropriate experience and qualifications. The assessment conformed to the Hong Kong Institute of Surveyors ("HKIS") Valuation Standards 2017 published by the Hong Kong Institute of Surveyors and the international Valuation Standards 2017 published by International Valuation Standards Council.

14. GOODWILL (Continued)

Particular of impairment testing on goodwill

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

– Retail outlets

The recoverable amount of the CGU is determined based on value-in-use calculation, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-years period, and the discount rate approximately 16.3% (2017: 15.9%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5-years period have been extrapolated using 3% (2017: 3%) growth rate per annum. Due to the fierce competition in various regions in the PRC, the performance of retail outlets business was expected to slightly decrease in the future business development, the directors assessed the recoverable amount of the CGU as at 31 December 2018 is calculated to be lower than the carrying amount of the CGU to which the goodwill is allocated, therefore impairment loss on goodwill of approximately RMB16,671,000 (2017: RMB16,213,000) was recognised.

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

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

15. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2018 **RMB'000**	2017 RMB'000
Provision for PRC corporate income tax	**–**	61

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

(b) Deferred tax assets and liabilities recognised:

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

	Accrued expenses and others RMB'000	Dividend withholding tax RMB'000	Total RMB'000
At 1 January 2017	2,009	(1,300)	709
Credited to profit or loss (note 7(a))	83	–	83
At 31 December 2017 and 1 January 2018	2,092	(1,300)	792
Charged to profit or loss (note 7(a))	(188)	–	(188)
At 31 December 2018	1,904	(1,300)	604

Reconciliation to the consolidated statements of financial position:

	2018 RMB'000	2017 RMB'000
Net deferred tax asset recognised in the consolidated statement of financial position	**1,904**	2,092
Net deferred tax liability recognised in the consolidated statement of financial position	**(1,300)**	(1,300)
	604	792

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(t), the Group has not recognized deferred tax assets in respect of cumulative tax losses of RMB302,528,000 (2017: RMB158,355,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Cumulative tax losses of RMB303,316,000 (2017: RMB156,145,000) will expire within 5 years under current tax legislation.

(d) Deferred tax liabilities not recognised

Deferred tax liabilities in respect of the PRC dividend withholding tax relating to the undistributed profits of the Group's PRC subsidiaries of RMB227,070,000 (2017: RMB371,241,000) were not recognised as the Company controls the dividend policy of these subsidiaries and the directors have determined that these profits are not likely to be distributed in the foreseeable future.

16. INVESTMENT IN AN ASSOCIATE

	2018 RMB'000	2017 RMB'000
Acquisition of interests in an associate	**45,000**	45,000
Share of post-acquisition profits, net of dividend received	**1,437**	557
At end of the year	**46,437**	45,557

Summarised statement of financial position of the associate:

	2018 RMB'000	2017 RMB'000
Non-current assets	**364**	102
Current assets	**103,193**	101,340
Non-current liabilities	**–**	–
Current liabilities	**(364)**	(205)
Net assets of the associate	**103,193**	101,237

Summarised statement of profit or loss and other comprehensive income of the associate:

	2018 RMB'000	2017 RMB'000
Revenue	**9,426**	5,539
Profit for the year	**1,956**	1,237
Total comprehensive income for the year	**1,956**	1,237
Dividend received during the year	**–**	–

Reconciled to the Group's interests in the associate:

	2018 RMB'000	2017 RMB'000
Gross amounts of net assets of the associate	**103,193**	101,237
Group's effective interest	**45%**	45%
Group's share of net assets of the associate	**46,347**	45,557

16. INVESTMENT IN AN ASSOCIATE (Continued)

Details of the Group's investment in an associate, which is accounted for using the equity method in the consolidated 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
			2018		2017			
			direct	**indirect**	direct	indirect		
廈門兆年商業保理有限公司	The People's Republic of China ("**PRC**")	Limited liability	**–**	**45%**	–	45%	RMB100,000,000	Engage in commercial factoring business and provide credit facility, tender agency, liquidation and settlement services

17. INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	2018 **RMB'000**	2017 RMB'000
Raw materials	**1,127**	3,508
Work in progress	**1,089**	3,121
Finished goods	**67,198**	99,133
	69,414	105,762

18. TRADE RECEIVABLES

	2018 **RMB'000**	2017 RMB'000
Trade receivables	**179,775**	269,279
Less: Allowance for doubtful debts	**(39,969)**	(52,959)
	139,806	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 30 to 120 days (2017: 30 to 120 days).

18. TRADE RECEIVABLES (Continued)

As of the end of the reporting period, the ageing analysis of trade receivables of the Group based on invoice date and net of allowance for doubtful debts, is as below:

	2018 **RMB'000**	2017 RMB'000
Within 90 days	**55,649**	106,993
90-120 days	**20,330**	24,652
After 120 days but within 180 days	**23,615**	30,078
After 180 days but within 1 year	**17,321**	48,123
Over 1 year	**22,891**	6,474
	139,806	216,320

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

	2018 **RMB'000**	2017 RMB'000
Neither past due nor impaired	**75,979**	131,645
Past due but not impaired		
Less than 1 month past due	**10,156**	14,246
Over 1 month but 3 months past due	**19,264**	15,832
Over 3 months past due	**34,407**	54,597
	139,806	216,320

Trade receivables that were past due but not impaired related to customers that had a good repayment record with the Group. Based on past experience, the Directors believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

At the end of the reporting period, trade receivables of RMB8,093,000 (2017: RMB55,134,000) was impaired.

18. TRADE RECEIVABLES (Continued)

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 doubtful debts is as follows:

	2018	2017
	RMB'000	RMB'000
At beginning of the year	**55,098**	7,777
Impairment loss for trade debts	**8,093**	55,134
Amounts written off	**(23,222)**	–
Reversal of impairment loss	**–**	(9,952)
	39,969	52,959

Details of assessment for expected credit losses of trade receivables for the year ended 31 December 2018 are set out in note 28(a).

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018	2017
	RMB'000	RMB'000
Prepayments to suppliers	**49,341**	23,513
Other tax recoverable	**10,100**	16,610
Other prepayments and receivables	**58,787**	42,060
	118,228	82,183

Details of assessment for expected credit losses of other receivable for the year ended 31 December 2018 are set out in note 28(a).

20. CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2018	2017
	RMB'000	RMB'000
Cash at bank and on hand	**3,555**	1,972

At 31 December 2018, cash and cash equivalents and fixed deposits at banks with original maturity over three months with aggregate amount of RMB42,320,000 (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.

20. CASH AND CASH EQUIVALENTS (Continued)

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

	Note	2018 RMB'000	2017 RMB'000
Loss before taxation		**(201,498)**	(155,287)
Adjustment for:			
Depreciation	6(c)	**9,242**	6,903
Amortisation of intangible assets	6(c)	**18,365**	17,908
Amortisation of lease prepayments	6(c)	**88**	88
Equity-settled share-based payments		**515**	8
Finance costs	6(a)	**7,557**	4,899
Interest income	5	**(1,918)**	(982)
Loss on disposal of property, plant and equipment	6(c)	**980**	925
Impairment loss recognised on goodwill		**16,671**	16,213
Written down on inventories		**25,364**	25,451
Bad debt written off on trade receivables		**12,359**	–
Impairment loss recognised on trade receivables		**8,093**	55,134
Share of result from an associate		**(880)**	(557)
Changes in working capital:			
Decrease/(increase) in inventories		**10,985**	(50,464)
Decrease in trade receivables		**53,923**	43,511
Increase in prepayment, deposits and other receivables		**(26,538)**	(10,729)
Decrease in trade and other payables		**(6,515)**	(4,276)
Cash used in operations		**(73,207)**	(51,255)

20. CASH AND CASH EQUIVALENTS (Continued)

(c) Reconciliation of liabilities arising from financing activities:

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flow were, or future cash flows will be, classified in the Group's consolidated statement of cash flow as cash flows from financing activities.

	Bank loans RMB'000 (note 21)	Amounts due to the related parties RMB'000 (note 22)	Convertible bonds RMB'000 (note 23)	Total RMB'000
At 1 January 2017	49,300	12,722	–	62,022
Changes from financing cash flows	7,650	5,031	2,047	14,728
Others:				
Acquisition of distribution channels	–	–	25,778	25,778
Exchange adjustments	–	(1,096)	–	(1,096)
At 31 December 2017 and 1 January 2018	56,950	16,657	27,825	101,432
Changes from financing cash flows	5,050	(16,881)	4,322	(7,509)
Exchange adjustments	–	224	–	224
As 31 December 2018	62,000	–	32,147	94,147

21. 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:

	2018 RMB'000	2017 RMB'000
Bank loans		
– secured	**62,000**	52,950
– unsecured	**–**	4,000
	62,000	56,950

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

	2018 RMB'000	2017 RMB'000
Buildings held for own use (note 11)	**65,006**	63,328
Lease prepayments (note 13)	**1,623**	1,678
	66,629	65,006

Bank loans of RMB35,200,000 as at 31 December 2018 (2017: RMB24,500,000) are guaranteed by the directors of the Company and a third party which are included in secured bank loans.

The bank loans comprise:

	2018 RMB'000	2017 RMB'000
Fixed-rate bank loans	**62,000**	56,950

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

	2018 RMB'000	2017 RMB'000
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:

	2018 RMB'000	2017 RMB'000
RMB	**62,000**	56,950

22. TRADE AND OTHER PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	**1,215**	6,695
Receipts in advance	**619**	468
Amounts due to related parties	**–**	16,657
Other payables and accruals	**12,183**	13,995
	14,017	37,815

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

	2018 RMB'000	2017 RMB'000
Within 3 months	**718**	6,198
After 3 months but within 6 months	**–**	–
After 6 months but within 1 year	**–**	–
After 1 year	**497**	497
	1,215	6,695

23. 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 borne an interest rate of 4% per annum ("**Convertible Bonds**") as a part of consideration for acquisition of distribution channel (Note 27). 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.

The Convertible Bonds information are presented as follows:

Principal amount:

– as at 23 June 2017	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
Discount rate:	18.6%

23. CONVERTIBLE BONDS (Continued)

The Convertible Bonds recognised in the consolidated 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
At 1 January 2017	–
Liability component at date of issue	25,778
Interest charged	2,771
Interest payable/paid	(724)
At 31 December 2017 and 1 January 2018	27,825
Interest charged	5,692
Interest payable/paid	(1,370)
At 31 December 2018	32,147

24. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

The PRC subsidiaries of the Group participate in defined contribution retirement benefit schemes (the "**Schemes**") organised by the PRC municipal and provincial government authorities whereby the PRC subsidiaries are required to make contributions at the rate of 12% to 21% of the eligible employees' salaries to the Schemes. The Group has accrued for the required contributions which are remitted to the respective local government authorities when the contributions become due. The local government authorities are responsible for the pension obligations payable to the retired employees covered under the Schemes.

The Group also operates a Mandatory Provident Fund Scheme (the "**MPF scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

The Group does not have any material obligation for the payment of retirement benefits except for those schemes described above.

25. SHARE BASED PAYMENTS

Pre-IPO Share Option Scheme

Pursuant to the shareholders' resolutions passed on 27 December 2013, the Company adopted a pre-IPO share option scheme (the "**Pre-IPO Option Scheme**") whereby three directors and eighteen employees of the Group (the "**Grantees**") were given the rights to subscribe for the shares of the Company. The subscription price per share pursuant to the Pre-IPO Option Scheme is equal to 80% of the final offer price of the IPO.

The Pre-IPO Option Scheme was offered to and accepted by the Grantees on 27 December 2013, which is determined to be the service commencement date, and the shareholders' approval on the Pre-IPO Option Scheme became legally enforceable on 15 January 2014, which is the date of listing of the Company's share on the Stock Exchange ("**Listing Date**") and also the grant date of the PreIPO options.

The total number of shares which may be issued upon the exercise of all options granted under the PreIPO Option Scheme is 7,000,000 shares. No further options would be granted under the PreIPO Option Scheme on or after the Listing Date.

Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

Share Option Scheme

The Company adopted the Share Option Scheme on 27 December 2013 for the purpose of rewarding certain eligible persons for their past contributions and attracting and retaining, or otherwise maintaining on-going relationships with, such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group. Subject to the earlier termination of the Share Option Scheme in accordance with the rules thereof, the Share Option Scheme shall remain in force for a period of ten years commencing on the Listing Date.

Eligible participants of the Scheme include any proposed, full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; any directors or proposed director (including non-executive director and independent non-executive directors) of the Company or any of its subsidiaries; any direct or indirect Shareholder of the Company or any of its subsidiaries; and any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries.

25. SHARE BASED PAYMENTS (Continued)

Share Option Scheme (Continued)

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the shares in issue as at the Listing Date, i.e. 80,000,000 shares of the Company. Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

(i) renew this limit at any time to 10% of the shares in issue as at the date of the approval by the Shareholders in general meeting ; and/or

(ii) grant options beyond the 10% limit to eligible participants specifically identified by the Board.

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

The maximum number of shares issuable upon the exercise of options granted under the Share Option Scheme and any other share option scheme adopted by the Group (including both exercised or outstanding options) to each grantee within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of options in excess of this 1% limit shall be subject to: (i) the issue of a circular by the Company ; and (ii) the approval of the Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time.

Share options granted to a Director, chief executive or substantial Shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors of the Company. In addition, any share options granted to a substantial Shareholder or an independent non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to Shareholders' approval in advance in a general meeting.

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

25. SHARE BASED PAYMENTS (Continued)

The exercise price share based 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.

On 2 November 2018, the Company has granted, a total of 80,000,000 share options to certain directors and employees and others, under Share Option Scheme and share-based payment expenses of approximately RMB515,000 was recognised to consolidated statement of profit or loss and other comprehensive income during the year 31 December 2018.

Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

(a) The terms and conditions of the grants are as follows:

(i) Pre IPO Option Scheme

Date of grant		Number of options granted	Vesting conditions	Contractual life of options
Options granted to directors:				
15 January 2014	Batch 1	720,000	1 year after the Listing Date	8 years
15 January 2014	Batch 2	720,000	2 years after the Listing Date	8 years
15 January 2014	Batch 3	960,000	3 years after the Listing Date	8 years
Options granted to employees:				
15 January 2014	Batch 1	1,380,000	1 year after the Listing Date	8 years
15 January 2014	Batch 2	1,380,000	2 years after the Listing Date	8 years
15 January 2014	Batch 3	1,840,000	3 years after the Listing Date	8 years
		7,000,000		

(ii) Share Option Scheme

Date of grant		Number of options granted	Vesting conditions	Contractual life of options
Options granted to directors:				
2 November 2018	Batch 1	8,880,000	1 year after the grant date	10 years
2 November 2018	Batch 2	13,320,000	2 years after the grant date	10 years
Options granted to employees and others:				
2 November 2018	Batch 1	23,120,000	1 year after the grant date	10 years
2 November 2018	Batch 2	34,680,000	2 years after the grant date	10 years
		80,000,000		

25. SHARE BASED PAYMENTS (Continued)

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

(i) Pre IPO Option Scheme

	Year ended 31 December 2018		Year ended 31 December 2017	
	Weighted Average Exercise price	**Number of Options '000**	Weighted Average Exercise price	Number of Options '000
Outstanding at the beginning of the year	**HK$1.824**	**3,400**	HK$1.824	3,500
Forfeited during the year*	**–**	**–**	HK$1.824	100
Outstanding at the end of the year	**HK$1.824**	**3,400**	HK$1.824	3,400
Exercisable at the end of the year	**HK$1.824**	**3,400**	HK$1.824	3,400

* The Pre-IPO options of an employee was forfeited as he resigned in 2017.

The Pre-IPO options outstanding as at 31 December 2018 had an exercise price of HK$1.824 (2017: HK$1.824) and a weighted average remaining contractual life of Batch 1-3 are 3 years (2017: 4 years).

(ii) Share Option Scheme

	Year ended 31 December 2018	
	Weighted Average Exercise price	**Number of options '000**
Granted during the year	**HK$0.107**	**80,000**
Outstanding at the end of the year	**HK$0.107**	**80,000**
Exercisable at the end of the year	**HK$0.107**	**–**

The share options outstanding as at 31 December 2018 had an exercise price of HK$0.107 and a weighted average remaining contractual life is 10 years.

25. SHARE BASED PAYMENTS (Continued)

(c) Fair value of share options and assumptions

The fair value of services rendered by the directors and employees in return for the share options granted is measured by reference to the fair value of the share options granted. Set out below are the estimate of such fair value and the related assumptions based on the binomial model:

(i) Pre IPO option scheme

	Batch 1	Batch 2	Batch 3
Fair value at measurement date (HK$)	1.0610	1.1359	1.1959
Share price (HK$)	2.81	2.81	2.81
Exercise price (HK$)	1.824	1.824	1.824
Expected volatility	43.488%	43.488%	43.488%
Contractual option life	8	8	8
Expected dividends	2.50%	2.50%	2.50%
Risk-free rate	1.87%	1.87%	1.87%

(ii) Share option scheme

	Batch 1	Batch 2
Fair value at measurement date (HK$)	0.06441	0.06523
Share price (HK$)	0.107	0.107
Exercise price (HK$)	0.107	0.107
Expected volatility	56.512%	56.512%
Contractual option life	10	10
Expected dividends	0.00%	0.00%
Risk-free rate	2.44%	2.44%

(Expressed in Renminbi unless otherwise indicated)

25. SHARE BASED PAYMENTS (Continued)

(c) Fair value of share options and assumptions (Continued)

The expected volatility is based on the historic volatility of comparable companies. Expected dividends are based on management's assumption. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under service condition. These conditions have not been taken account in the fair value measurements at the grant dates. There were no market conditions associated with the grants of the share options.

At the date of approval of these consolidated financial statements, the Company had 83,400,000 share options outstanding under the share option schemes, which represented approximately 8.4% of the Company's shares in issue as of that date.

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

Exercise period	Exercise price	2018 Number	2017 Number
15 January 2015 to 14 January 2022	HK$1.824	**1,020,000**	1,020,000
15 January 2016 to 14 January 2022	HK$1.824	**1,020,000**	1,020,000
15 January 2017 to 14 January 2022	HK$1.824	**1,360,000**	1,360,000
2 November 2018 to 1 November 2028	HK$0.107	**80,000,000**	–
		83,400,000	3,400,000

26. CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

No dividend was paid or proposed during the year ended 31 December 2018 and 2017, nor has any dividend been proposed since the end of the reporting period. The rates of dividend and the number of Shares ranking for dividend are not presented, as such information is not considered meaningful for the purpose of these consolidated financial statements.

26. CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Share capital

(i) *Authorised and issued share capital*

	2018			2017		
	No. of share	**HK$'000**	**RMB'000**	No. of share	HK$'000	RMB'000
Authorised:						
Ordinary shares of HK$0.01 each	**10,000,000,000**	**100,000**	**79,380**	10,000,000,000	100,000	79,380
Ordinary shares, issued and fully paid:						
At 1 January	**824,000,000**	**8,240**	**6,483**	824,000,000	8,240	6,483
Issue of share upon placing	**160,000,000**	**1,600**	**1,350**	–	–	–
At 31 December	**984,000,000**	**9,840**	**7,833**	824,000,000	8,240	6,483

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

(c) Nature and purpose of reserve

(i) *Share premium*

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

(ii) *Statutory reserve*

As stipulated by regulations in the PRC, the Company's subsidiaries established and operated in mainland China are required to appropriate 10% of their after-tax-profit (after offsetting prior year losses) as determined in accordance with the PRC accounting rules and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of profits to parent companies.

The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

(iii) *Exchange reserve*

Exchange reserve comprises all foreign exchange differences arising from the translation of financial statements of operations outside mainland China which are dealt with in accordance with the accounting policies as set out in note 2(x).

26. CAPITAL, RESERVES AND DIVIDENDS (Continued)

(c) Nature and purpose of reserve (Continued)

(iv) Share-based payment reserve

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

(v) Capital reserve

Think Wise Holdings Investment Limited ("**Think Wise**"), the immediate controlling party of the Group waived an outstanding amount of HK$184,239,688 (equivalent to RMB145,549,000) due from Red Kids Group (Hong Kong) Limited, a subsidiary of the Group in January 2014. This deed of waiver has been reflected as a reduction of amount due to Think Wise and a corresponding increase in the capital reserve of the Group during the year.

(vi) Convertible bond reserve

Convertible bond reserve represents equity portion of Convertible Bonds.

(d) Distributable reserve

The distributable reserve of the Company as at 31 December 2018 was RMB258,524,000 (2017: RMB228,368,000).

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure with reference to its debt position. The Group's strategy is to maintain the equity and debt in a balanced position and ensure there are adequate working capital to service its debt obligations. The Group's debt to capital ratio, being the Group's interest-bearing bank loans and convertible bonds over its total equity, at 31 December 2018 was 19% (2017: 13%).

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

27. ACQUISITION OF DISTRIBUTION CHANNELS

For the year ended 31 December 2017

Acquisition of distribution channels from Chengdu JiaShang Apparel Company Limited*

On 2 June 2017, a wholly-owned subsidiary of the Company, Quanzhou Tuoyu Trade Company Limited ("**Quanzhou Tuoyu**") entered into acquisition agreements with Chengdu JiaShang Apparel Company Limited* (成都佳尚服飾有限責任公司) (the "**Chengdu JiaShang**"), 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 (the "**Chengdu JiaShang Transfer**"). 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. Please refer to the Company's announcement dated 23 June 2017.

On 30 September 2017 and 31 December 2017, the transfer of 53 distribution channels was taken place and an amount of RMB54,025,000 was recognised as cash consideration paid and the fair value of the convertible bonds at the initial date of the issuance of the convertible bonds was recognised as part of consideration.

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

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

	Fair value RMB'000
Property, plant and equipment (note 11)	1,722
Intangible assets (note 12)	18,443
	20,165
Goodwill arising on the business combination (note 14)	33,860
	54,025

27. ACQUISITION OF DISTRIBUTION CHANNELS (Continued)

For the year ended 31 December 2017 (Continued)

Acquisition of distribution channels from Chengdu JiaShang Apparel Company Limited* *(Continued)*

Total consideration satisfied by:

	RMB'000
Cash consideration paid	14,606
Fair value of Convertible Bonds issued	39,419
	54,025

An analysis of the cash flows in respect of the Chengdu JiaShang Transfer is as follows:

	RMB'000
Cash consideration paid	14,606
Net outflow of cash and cash equivalents included in cash flows from investing activities	14,606

As Chengdu JiaShang Transfer took place on 30 September 2017 and 31 December 2017, the distribution channels from Chengdu JiaShang contributed RMB6,478,000 to the Group's revenue and RMB1,474,000 to the consolidated profit for the year ended 31 December 2017. Has these business combination been effected at 1 January 2017, the profit for the year of approximately RMB14,461,000 and revenue for the year of approximately RMB39,478,000 attributable to the Group.

* The English name is for identification only

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and deposits with banks. Management has a credit policy in place and the exposures to the credit risks are monitored on an ongoing basis.

(i) Trade receivables

Credit evaluations are performed on customers requiring credit terms. These evaluations focus on the customer's history of making payments and current abilities to pay and take into account information specific to the customer as well as to the economic environment. Normally, the Group does not obtain collateral from customers. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in notes 18 & 19.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. 16% of the total trade receivables as at 31 December 2018 (2017: 25%) were due from the Group's largest customer, and 46% (2017: 61%) of the total trade receivables were due from the Group's five largest customers respectively.

The maximum exposure to credit risk of the Group's financial assets is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

(i) Trade receivables (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018:

	Expected loss rate %	**Gross carrying amount** RMB'000	**Loss allowance** RMB'000
Current (not past due)	0.3%	76,215	236
Less than 1 month past due	0.5%	10,206	50
Over 1 month but 3 months past due	0.6%	19,385	121
Over 3 months past due	53.5%	73,969	39,562
		179,775	39,969

Expected loss rates are based on actual loss experience over the past 2 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

The closing loss allowances for including trade receivables as at 31 December 2018 reconcile to the opening loss allowances as follows:

	Trade receivables HKD'000
At 31 December 2017–IAS 39	52,959
Amounts re-measured through opening – retained profits	2,139
At 1 January 2018–IFRS 9	55,098
Increase in loss allowance recognized in profit or loss during the year	8,093
Written off as uncollectible	(23,222)
At 31 December 2018-IFRS 9	39,969

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

(i) Trade receivables (Continued)

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period greater than 1 year past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

(ii) Other receivable

The credit quality of the other receivables excluding prepayments has been assessed with reference to historical information about the counterparties default rates and financial position of the counterparties. The directors are of the opinion that the credit risk of other receivables is low due to the sound collection history of the receivables due from them. Therefore, expected credit loss rate of other receivables excluding prepayments is assessed to be close to zero and no provision was made as of 31 December 2018.

(iii) Deposits with banks

The Group mitigates its exposure to credit risk by placing deposits with financial institutions with established credit rating. Given the high credit ratings of the banks, management does not expect any counterparty to fail to meet its obligations.

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk

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

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

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

At 31 December 2018

	Weighted average effective interest rate %	On demand or within 1 year RMB'000	2 to 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
Non-derivative financial liabilities					
Trade and other payables	–	14,017	–	14,017	14,017
Bank loans	5.16%	62,000	–	62,000	62,000
Convertible bonds	20%	34,393	–	34,393	32,147
		110,410	–	110,410	108,164

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk (Continued)

At 31 December 2017

	Weighted average effective interest rate %	On demand or within 1 year RMB'000	2 to 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
Non-derivative financial liabilities					
Trade and other payables	–	37,815	–	37,815	37,815
Bank loans	5.27%	56,950	–	56,950	56,950
Convertible bonds	20%	4,407	29,986	34,393	27,825
		99,172	29,986	129,158	122,590

(c) Interest rate risk

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

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

	2018		2017	
	Effective interest rate	**Amount RMB'000**	Effective interest rate	Amount RMB'000
Fixed rate borrowings:				
Bank loans	**4.79-6.74%**	**62,000**	4.79-6.31%	56,950

Interest rate risk from bank loans is considered insignificant given these loans are at fixed interest rates.

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

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(d) Currency risk

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

(e) Fair values

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable as at 31 December 2018 and 2017.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

Liabilities for which fair values under non-recurring measurement are disclosed:

As at 31 December 2018

	Fair value measurement using		
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**
Liability component of Convertible bonds	**–**	**–**	**32,403**

As at 31 December 2017

	Fair value measurement using		
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Liability component of Convertible bonds	–	–	27,794

There were no transfer between Level 1 and 2 in both years. When a determination is made to classify an asset or liability within Level 3, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement.

Valuation Techniques	**Unobservable inputs**	**2018**	2017
Binomial model	Discount rate	**17.8%**	20.5%

As at 31 December 2018, the discount rate used to compute the fair value is 17.8%. The higher the discount rate, the lower the fair value.

29. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2018 not provided for in the financial statement were as follows:

	2018 RMB'000	2017 RMB'000
Contracted for	**7,528**	7,528

(b) Operating lease arrangements – As lessee

At 31 December 2018 and 2017, the Group has a commitment to pay rent with reference to turnover for a retail store. Contingent rentals are not represented as it is not possible to estimate the amounts which may be payable.

(c) Operating lease arrangements – As lessor

At 31 December 2018, the total future minimum lease receivables under non-cancellable operating leases are receivable as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	**457**	–

At 31 December 2018, the Group leased certain of its properties under operating leases. The leases typically run for an initial period for two years, at the end of which period all terms were renegotiated.

30. MATERIAL RELATED PARTY TRANSACTIONS

The directors are of the view that the following are related parties of the Group:

Name of party	**Relationship**
Mr. Ding Peiji	Ultimate controlling party
Opulent Ample Limited	Shareholder of the Company which is a company a beneficially owned by Mr. Ding Weizhu, who is a father of Mr. Ding Peiji
Mr. Ding Weizhu	Father of Mr. Ding Peiji

(a) Material transactions with related parties

In addition to the related party transactions disclosed elsewhere in the financial statements, the Group entered into the following material related party transactions during the year ended 31 December 2018 and 2017.

(i) Amounts due to related parties

During the year ended 31 December 2018, the Group had not obtained any loan from related parties (2017: RMB5,031,000 from Opulent Ample Limited.)

The amounts due to Opulent Ample Limited as at 31 December 2018 were Nil (2017: RMB16,657,000 which are unsecured, interest-free and repayable on demand. The carrying amount is approximate to its fair value) (note 22).

(ii) Guarantee provided by a related party

Secured bank loans of RMB35,200,000 as at 31 December 2018 (2017: RMB 24,500,000) were guaranteed by Mr. Ding Peiji (note 21).

(b) Key management personnel compensation

Remuneration for key management personnel of the Group, including amounts paid to the directors of the Company as disclosed in note 8 and the highest paid employees as disclosed in note 9, is as follows:

	2018 **RMB'000**	2017 RMB'000
Short-term employee benefits	**3,027**	4,231
Contributions to retirement benefit scheme	**77**	95
Equity-settled share-based payments	**453**	8
	3,557	4,334

Total remuneration is included in "staff costs" (note 6(b)).

31. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

As at 31 December 2018, the directors of the Company consider the immediate and ultimate controlling parties to be Think Wise Holdings Investment Limited and Mr. Ding Peiji respectively.

32. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendment to IFRSs, Annual Improvements to IFRSs 2015–2017 Cycle	1 January 2019
Amendment to IFRS 9, Prepayment Features with Negative Compensation	1 January 2019
Amendment to IFRS 10 and IAS 28, Sale or Contribution of	To be determined
IFRS 16, Leases	1 January 2019
Amendment to IAS 28, Long-term Interests in Associates and Joint Ventures	1 January 2019
IFRIC-Int 23, Uncertainty over Income Tax Treatment	1 January 2019
Amendment to IFRS 3, Definition of a Business	1 January 2020
Amendment to IFRS 17, Insurance Contracts	1 January 2021
Amendment to IAS 1 and IAS 8, Definition of Material	1 January 2020
Amendment to IAS 19, Plan Amendment, Curtailment or Settlement	1 January 2019

32. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)

IFRS 16 Leases

IFRS 16, which upon the effective date will supersede IAS 17 Leases, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

Specifically, under IFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognize depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows.

Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, IAS 17.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As at 31 December 2018, the Group has no operating lease commitment. The directors do not expect the adoption of IFRS 16 as compared with the current accounting policy would result in a significant impact on the Group's result at this stage.

33. FINANCIAL POSITION OF THE COMPANY

	2018 RMB'000	2017 RMB'000
Non-current assets		
Investments in subsidiaries	**4,127**	4,127
Amounts due from subsidiaries	**307,987**	289,796
	312,114	293,923
Current assets		
Other receivables	**9**	8
Cash and cash equivalents	**1,110**	128
	1,119	136
Current liabilities		
Other payables and accruals	**1,088**	17,742
Convertible bonds	**32,147**	–
	33,235	17,742
Net current liabilities	**(32,116)**	(17,606)
Total assets less current liabilities	**279,998**	276,317
Non-current liabilities		
Convertible bonds	**–**	27,825
Net assets	**279,998**	248,492
Equity		
Share capital	**7,833**	6,483
Reserves	**272,165**	242,009
Total equity	**279,998**	248,492

Approved and authorised for issue by the board of directors on 8 March 2019.

Ding Peiji *Director*	**Ding Peiyuan** *Director*

34. RESERVES OF THE COMPANY

	Note	Share Premium RMB'000 26(c)(i)	Share-Based payment reserve RMB'000 26(c)(iv)	Convertible bonds reserve RMB'000 28(c)(vi)	Exchange reserve RMB'000 28(c)(iii)	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2017		246,825	5,530	–	32,080	(30,543)	253,892
Changes in equity for 2017:							
Loss for the year		–	–	–	–	(7,856)	(7,856)
Other comprehensive loss		–	–	–	(17,676)	–	(17,676)
Total comprehensive loss		–	–	–	(17,676)	(7,856)	(25,532)
Recognition of equity component of convertible bond		–	–	13,641	–	–	13,641
Equity-settled share-based transaction		–	8	–	–	–	8
Lapse of share options		–	(211)	–	–	211	–
Balance at 31 December 2017 and 1 January 2018		246,825	5,327	13,641	14,404	(38,188)	242,009
Changes in equity for 2018:							
Loss for the year		–	–	–	–	(9,366)	(9,366)
Other comprehensive loss		–	–	–	13,627	–	13,627
Total comprehensive loss		–	–	–	13,627	(9,366)	4,261
Issue of ordinary shares		25,743	–	–	–	–	25,743
Less: Share issue expense		(363)	–	–	–	–	(363)
Equity-settled share-based transaction		–	515	–	–	–	515
Balance at 31 December 2018		272,205	5,842	13,641	28,031	(47,554)	272,165

35. INVESTMENTS IN SUBSIDIARIES

Particulars of the subsidiaries are set out below:

Name of company	Place of Incorporation and business	Issued and paid up capital	Particulars of Group's effective Interest	Proportion of Ownership interest: Held by the Company	Proportion of Ownership interest: Held by a Subsidiary	Principal activity
Obvious Cheer Investment Development Limited	BVI	1 share of USD 1 each	100%	100%	–	Investment holding
Red Kids Group (Hong Kong) Limited	Hong Kong	100,000 shares	100%	–	100%	Investment holding
Red Kids (China) Co., Ltd.*	PRC	HK$460,000,000	100%	–	100%	Design manufacture and sales of children apparel products
Miko (Shanghai) Apparels Co., Ltd.*	PRC	HK$20,000,000	100%	–	100%	Design manufacture and sales of children apparel products
Quanzhou Tuoyu Trade Co., Ltd.*	PRC	HK$1,000,000	100%	–	100%	Sales of children apparel products
Hopeful Bright Holding Limited	BVI	1 share of USD 1 each	100%	100%	–	Investment holding
Proper Sharp Holding Limited	BVI	1 share of USD 1 each	100%	100%	–	Investment holding
Vast Desirous Limited	Hong Kong	1 share of HK$1 each	100%	–	100%	Investment holding
Reddish Gold Holding Limited	Hong Kong	1 share of HK$1 each	100%	–	100%	Investment holding

* These entities are wholly foreign owned enterprises established in the PRC. The English translation of the companies' names is for reference only. The official names of these companies are in Chinese.

36. COMPARATIVE FIGURES

The Group has initially applied IFRS 15 and IFRS 9 as at 1 January 2018. Under the transition methods stated in Note 2, the comparative information is not restated. Further details of the charges in accounting policies are disclosed in Note 2 to the consolidated financial statements.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 8 March 2019.

FIVE YEARS FINANCIAL SUMMARY

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

	2018 **RMB'000**	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Turnover	**214,435**	334,741	368,849	585,698	795,699
Gross Profit	**38,663**	66,569	11,667	212,446	300,332
(Loss)/profit from operations	**(193,941)**	(150,388)	(130,444)	75,032	196,728
(Loss)/profit before taxation	**(201,498)**	(155,287)	(133,080)	71,921	193,319
(Loss)/profit for the year	**(201,686)**	(155,271)	(144,455)	30,338	137,914
Non-current assets	**219,270**	268,495	203,860	203,794	157,596
Current assets	**371,003**	513,237	678,266	854,878	862,073
Current liabilities	**108,164**	94,826	82,525	114,172	93,208
Net current assets	**262,839**	418,411	595,741	740,706	768,865
Net assets	**480,809**	657,781	798,601	943,200	925,161
Gross profit margin	**18.0%**	19.9%	3.2%	36.3%	37.7%
Operating (loss)/profit margin	**(90.4%)**	(44.8%)	(35.4%)	12.8%	24.7%
Net (loss)/profit margin	**(94.0%)**	(46.4%)	(39.2%)	5.2%	17.3%
Current ratio	**3.5 times**	5.4 times	7.9 times	7.5 times	9.2 times
Gearing ratio	**20.8%**	8.7%	6.1%	6.1%	4.1%
Inventory turnover day	**182 days**	127 days	63 days	42 days	30 days
Trade receivables turnover day	**303 days**	289 days	285 days	169 days	121 days
Trade and bills payables turnover day	**8 days**	8 days	6 days	10 days	12 days