MIKO INTERNATIONAL HOLDINGS LIMITED

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

Annual Report 2019

redkids
红孩儿

CONTENTS

CORPORATE INFORMATION

BOARD AND COMMITTEES

Executive Directors

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

Independent Non-Executive Directors

Mr. Hung Cho Sing
Mr. Chan Wai Wong
Mr. Wu Shiming

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

COMPANY SECRETARY

Mr. Pang Wing Hong

REGISTERED OFFICE

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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
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Hong Kong

AUDITORS

HLB Hodgson Impey Cheng Limited

LEGAL ADVISERS AS TO HONG KONG LAW

Stevenson, Wong & Co
CHIU & Co., Solicitors

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CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "**Board**") of Miko International Holdings Limited (the "**Company**"), I hereby present our full-year results for the year ended 31 December 2019. For the full year of 2019, revenue and net loss before taxation of the Company and its subsidiaries (the "**Group**") amounted to approximately RMB166.0 million and RMB256.4 million respectively, as compared to revenue and net loss before taxation of approximately RMB256.4 million and RMB201.5 million respectively for the full year of 2018.

The Sino-United States trade war that broke out in 2018 continued and re-escalated in the year of 2019 and the devaluation of the Renminbi has created many uncertainties on Mainland China's overall economic growth. The consumer sentiment and retail market were negatively affected continuously.

Facing the challenges from the complicated business environment, the continuous slowdown in the demand in domestic children apparel industry and the change in the consumption pattern of the consumers posed a negative impact to this retail sector during the year. The tough operating environment from fierce competition and increase in on-line shopping platforms caused brand consolidation and continuous transformation in the industry. The Group continued to review the performance of the physical retail stores and closed down stores with low efficiency during the year.

CHAIRMAN'S STATEMENT

The prospect of the retail sector in Mainland China is clouded by the macro-economic uncertainty brought by the Sino-United States trade war and micro-economic pressures of Mainland China market. In addition, due to the unexpected COVID-19 outbreak and its adverse impact since January 2020 in Mainland China, the Group decided to close certain self-operated stores recently in view of the traffic restriction from the local government and slow down of retail market. The Group expects that such economy disruption and traffic restriction will materially and adversely affect the operating results in 2020 in Mainland China. The management is not able to quantify and estimate the potential financial implication at this stage but would maintain the healthy liquidity of the Group to all extents. The management would always observe and review the current situation from time to time in order to minimize the loss suffered from such tough business atmosphere. Currently, the Group would shift the focus more to the on-line shopping platforms through distributors and put a tight control in spending and selling and distribution expenses so as to achieve more sustainable operation in the current tough economy and business environment.

The Group continues to examine the development strategy carefully to minimize the adverse impact from such environment. 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 continuously remains open to the opportunities for investment that can lead to sustainable growth going forward.

Ding Peiji
Chairman of the Board

7 May 2020

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 Mainland China. As at 31 December 2019, there were 28 "redkids" branded self-operated stores (2018: 74) and distributors located in the second to fourth tier cities in Mainland China.

The retail industry experienced a declining retail climate, uncertainty of consumer sentiment, and fierce competition in China for the year of 2019. 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 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 22.6%, from approximately RMB214.4 million for FY2018 to approximately RMB166.0 million for FY2019.

Sales to distributors continued to account for the majority of our Group's revenue during FY2019. Sales to distributors were approximately RMB107.5 million for FY2019, representing approximately 64.7% of our Group's revenue, as compared to that of approximately RMB141.8 million or 66.1% for FY2018.

Regarding sales to our designated on-line distributor, who resells our products through different online sales platforms in Mainland China, no sales was recognized for FY2019 owing to the undergoing changes by the distributor as compared to approximately RMB0.9 million for FY2018.

Sales from self-operated stores were approximately RMB58.6 million for FY2019, representing 35.3% of our Group's revenue, as compared to that of approximately RMB71.8 million or 33.5% for FY2018.

Sales from the apparel products segment continued to account for the majority of our Group's revenue during FY2019. Sales were approximately RMB163.4 million for FY2019, representing 98.4% of our Group's revenue, as compared to that of approximately RMB179.3 million or 83.6% for FY2018.

For the footwear and accessories segment, sales decreased from approximately RMB35.1 million for FY2018 to approximately RMB2.6 million for FY2019.

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

	FY2019	FY2018	% change
Sales volume (million units)	**2.8**	5.5	(49.1)
Average wholesale price (RMB)	**59**	39	51.3

MANAGEMENT DISCUSSION AND ANALYSIS

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

	FY2019		FY2018		% change
	RMB'000	%	RMB'000	%	
Apparel	163,442	98.4	179,348	83.6	(27.6)
Footwear and Accessories	2,589	1.6	35,087	16.4	(92.6)
	166,031	100.0	214,435	100.0	(22.6)

We primarily market our products through the extensive retail network in Mainland China.

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

	FY2019		FY2018		% change
	RMB'000	%	RMB'000	%	
Sales to distributors	107,460	64.7	141,818	66.1	(47.9)
Sales to on-line distributor	–	–	809	0.4	(100.0)
Sales from self-operated stores	58,571	35.3	71,808	33.5	(18.4)
	166,031	100.0	214,435	100.0	(22.6)

Cost of Sales

Our cost of sales decreased by approximately RMB39.2 million or approximately 22.3%, from approximately RMB175.8 million for FY2018 to approximately RMB136.6 million for FY2019. The decrease was generally in line with the decrease in turnover. During FY2019, 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 60.0% for FY2019 as compared to that of approximately 69.7% for FY2018.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit decreased by approximately RMB9.2 million or approximately 23.8%, from approximately RMB38.7 million for FY2018 to approximately RMB29.5 million for FY2019. Gross profit margin decreased by 0.2%, from 18.0% for FY2018 to 17.8% for FY2019.

Other Revenue and Other Net Loss

Other revenue primarily consisted of interest income from bank deposits of approximately RMB0.1 million (FY2018: approximately RMB1.9 million) rental and samples income of approximately RMB0.9 million (FY2018: approximately RMB0.6 million).

No other net loss in the year was recorded (FY2018: net foreign exchange loss of approximately RMB0.05 million).

Share of Results from an Associate

In FY2019, share of profit from an associate of the Group was approximately RMB0.2 million (FY2018: approximately RMB0.9 million).

Bad Debt Written off and Reversal of/(Allowance for) expected credit loss on Trade Receivables

Bad debts written off in respect of trade receivables of approximately RMB31.0 million (FY2018: RMB12.4 million) was recorded.

Reversal of allowance for expected credit loss on trade receivables of approximately RMB9.3 million (FY2018: allowance for expected credit loss on trade receivable of approximately RMB8.1 million) are recorded due to the management of the Company taking into consideration of 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 and Intangible Assets

Due to the recession of consumable market in 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 2019 is lower than the carrying amount of the CGU. As such, impairment loss on goodwill of approximately RMB27.7 million (2018: RMB16.7 million) and impairment loss on intangible assets of approximately RMB22.8 million (2018: nil) were recognised.

The impairment losses on the intangible assets of approximately RMB14.9 million was recognised as a result of indication for impairment and re-assessment on estimation of recoverable amount in respect of computer software.

Loss on the Remeasurement of Asset Classified as Held for Sale

The loss on the remeasurement of asset classified as held for sales was approximately RMB 4.7 million for FY 2019.

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 7.6%, from approximately RMB128.3 million for FY2018 to approximately RMB138.0 million for FY2019. 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 59.9% and 83.1% for FY2018 and FY2019 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 and taxes and levies.

Administrative and other operating expenses were approximately RMB34.0 million for FY2019, representing a decrease of approximately RMB11.1 million or a decrease of approximately 24.6% as compared to approximately RMB45.1 million for FY2018.

As a percentage of turnover, administrative and other operating expenses were 21.0% and 20.5% for FY2018 and FY2019 respectively.

Loss on Derecognition of Convertible Bonds

Loss on derecognition of convertible bonds of approximately RMB 1.2 million was made for FY2019.

Finance Costs

Finance costs decreased by approximately RMB0.1 million, from approximately RMB7.6 million for FY2018 to approximately RMB7.5 million for FY2019.

Income Tax Expenses

Income tax expenses of approximately RMB1.9 million was made for FY2019 as compared to approximately RMB0.2 million for FY2018. The effective tax rates were 0.74% and 0.09% for FY2019 and FY2018 respectively. Currently, our principal subsidiaries in 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 FY2019 of approximately RMB256.4 million was recorded as compared to approximately RMB201.5 million for FY2018.

Working Capital Management

We possess sufficient cash to meet liquidity requirements and for strategic alliances and acquisitions, if any. As of 31 December 2019, our cash and cash equivalents, and bank deposits totaled approximately RMB32.1 million (31 December 2018: approximately RMB43.6 million), representing more than 14.9% (31 December 2018: 11.7%) of the total amount of our current assets.

Current ratio and quick ratio were 2.6 times and 2.0 times, respectively, as at 31 December 2019, as compared to 3.4 times and 2.8 times, respectively, as at 31 December 2018.

Inventories

Our inventories decreased by approximately RMB19.5 million, from approximately RMB69.4 million as of 31 December 2018 to approximately RMB49.9 million as at 31 December 2019. Inventories mainly comprised raw materials of approximately RMB1.5 million (31 December 2018: approximately RMB1.1 million), work in progress of approximately RMB2.4 million (31 December 2018: approximately RMB1.1 million) and finished goods of approximately RMB46.0 million (31 December 2018: approximately RMB67.2 million). The inventory turnover was 160 days for FY2019 (FY2018: 182 days).

A write down on inventories of RMB29.5 million (2018: RMB25.4 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 RMB72.0 million, from approximately RMB139.8 million as of 31 December 2018 to approximately RMB67.8 million as of 31 December 2019.

Trade receivables turnover was 228 days for FY2019 (FY2018: 303 days).

Reversal of allowance for expected credit loss on trade receivables of RMB9.3 million (2018: allowance for expected credit loss RMB8.1 million) are recorded due to the management of the Company taking into consideration of 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 increased from approximately RMB1.2 million as of 31 December 2018 to approximately RMB3.9 million as of 31 December 2019. Trade payables turnover was 6.8 days for FY2019 (FY2018: 8.2 days).

LIQUIDITY AND FINANCIAL RESOURCES

The following table sets forth our cash flows for FY2019 and FY2018:

	FY2019 RMB'000	FY2018 RMB'000
Net cash generated from/(used in) operating activities	**18,181**	(73,268)
Net cash generated from investing activities	**51,499**	63,804
Net cash (used in)/generated from financing activities	**(43,147)**	11,664
Net increase in cash and cash equivalents	**26,533**	2,200
Cash and cash equivalents at 1 January	**3,555**	1,972
Effect of foreign exchange rate changes	**2,014**	(617)
Cash and cash equivalents at 31 December	**32,102**	3,555

We were in net cash position as of 31 December 2019, and our gearing ratio was 25.3% as of 31 December 2019 (31 December 2018: 19.4%).

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 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 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

Amendments to the Terms and Conditions of the CB Subscription Agreement and the Convertible Bonds

On 12 June 2019, the Company, Quanzhou Tuoyu Trade Co., Ltd. (the "**Purchaser**") and Bright Oasis Investment Holdings Limited (the "**Subscriber**") have entered into a deed of amendment ("**Deed of Amendment**") to amend certain terms and conditions of the subscription agreement dated 2 June 2017 ("**CB Subscription Agreement**") and the convertible bonds in the aggregate principal amount of RMB34,393,044 issued by the Company to the Subscriber on 23 June 2017 (the "**Convertible Bonds**").

According to the Deed of Amendment, the Company, the Purchaser and the Subscriber have agreed that (i) the Company shall repay to the Subscriber a partial principal amount of Convertible Bonds of RMB18,629,566, (ii) the Convertible Bonds in the aggregate principal amount of not more than RMB34,393,044 representing 164,800,000 conversion Shares at the conversion price of HK$0.24 per Share shall be adjusted to an aggregate outstanding principal amount of RMB15,763,478 representing 164,800,000 conversion Shares at the conversion price of HK$0.11 per Share; (iii) the maturity date of the Convertible Bonds shall be extended from 23 June 2019 to 23 June 2021; and (iv) the interest rate of the Convertible Bonds shall be adjusted from 4.0% per annum to 8.0% per annum on the principal amount of the Convertible Bonds outstanding.

For further details, please refer to the announcement of the Company dated 12 June 2019.

CAPITAL COMMITMENTS

As of 31 December 2019, capital expenditure contracted but not provided for was approximately RMB7.5 million (31 December 2018: approximately RMB7.5 million).

CONTINGENT LIABILITIES

Our Group did not have any significant contingent liabilities as of 31 December 2019 and 2018.

PLEDGE OF ASSETS

As of 31 December 2019, certain properties and right-of-use assets/lease prepayments totalled approximately RMB34.3 million (31 December 2018: approximately RMB66.6 million) were pledged for certain bank loans.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

On 12 December 2019, Red Kids China, entered into the Sale and Purchase Agreement with Shanghai Yanhe, pursuant to which Red Kids China has agreed conditionally to sell, and Shanghai Yanhe has agreed conditionally to purchase the Target Property, for an aggregate consideration of RMB26,300,000. The disposal transaction has been approved by the shareholders at the extraordinary general meeting on 12 February 2020 and the transfer was already completed. For further details, please refer to the announcement of the Company dated 12 December 2019, 7 January 2020, 24 January 2020 and 12 February 2020.

Save as disclosed as above, our Group made no significant investments, material acquisitions or disposal during the year ended 31 December 2019.

INVESTMENTS HELD IN FOREIGN CURRENCY AND HEDGING

For FY2019, 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 2019, we employed around 365 full-time employees. The total staff costs for FY2019 was approximately RMB37.6 million (FY2018: approximately RMB36.1 million).

OVERVIEW

Entities

For the purpose of this ESG reporting, Miko International Holdings Limited is referred to as the Company (the "**Company**"), and together with its subsidiaries as the Group (the "**Group**").

Reporting Period

1 January 2019 to 31 December 2019

Objective

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 obliged to review, identify and disclose relevant information required in the ESG Guide in a manner in the opinion of the Board of Directors of the Group ("the Board") which is considered to be material to the investors and other stakeholders.

In this regard, the Group has introduced measures and established key performance indicators ("**KPIs**") on environmental and social aspects since our 2017 ESG reporting. The Group has been able to review, assess and monitor the performance of our environmental and social obligations in a continuing and ongoing manner.

The Group is committed to being an excellent corporation in its trade and industry and is well aware that ESG matters are a long term task which warrants the Board's constant attention and supervision. The Board ensures that ESG policies established and measures implemented are in line with corporate vision and principles, business objectives and responsibilities of the Group business operations.

The Group believes that accomplishments and success in ESG matters are beneficial to the overall interest of the Group and other stakeholders including but not limited to investors, employees and business partners together with the environment and the society.

Business Scope, Management and Approach

The Group is engaged in the design, manufacture and sale of infant and children 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 matters for the year ended 2019 reported below, cover our headquarters and the main manufacturing plant in Quanzhou City of Fujian Province and our extensive wholesale agencies and retail sales outlets across China.

The Group continues to strive to be an environmentally friendly and socially responsible corporation. We recognize that sustainable development is an important driving force for the growth of the Group and creation of values to our stakeholders, general public and the environment where we live operate and survive. It is our view that environmental and social issues listed in the ESG Guide are significant considerations for our business planning and operations. As far as possible, we have integrated these environmental and social considerations into our business objectives, strategies and operational practices with the purpose of achieving the following:

Environmental Objectives

- Conduct our business operations and services in an environmental friendly manner in conjunction with our business plans and objectives;
- Use energy and resources in a wise and efficient manner by all operations of the Group;
- Minimize hazardous, pollutants and gas emissions, whether hazardous or non-hazardous in nature; and
- Reduce the water and waste water discharge to as far as attainable.

Social Aspect 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.

The Board of the Group continues to approve the ESG strategies, polices and guidelines while the general manager continues to be responsible for the Board's approved targets and defined strategic directions if they are adequately implemented in the Group's ESG activities. The general manager has appointed an ESG Manager to monitor and review the ESG issues to ensure that recommendations in the ESG Guide. Global Reporting Initiative ("**GRI**") are followed and adopted on a regular basis. Where necessary, independent professionals and consultants have also been and will continue to be engaged regularly to conduct analysis and reviews for the purpose of improving or problem solving of ESG matters.

Stakeholders Communication and Materiality

The Group always values input and feedback of its stakeholders which are considered influential and weight bearing to the overall interest and business of the Group. In this regard, internal and external stakeholders have regularly been contacted to canvas their views and opinions regarding not only ESG matters but the Group's operations and performance as well. The Group designates the Board of Directors and its senior management to regularly review the environmental and social aspects which are considered material to our operation. In the last 3 years, the Group and the stakeholders have identified the following material ESG areas and aspects:

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

The subject ESG material areas and aspects have and will continue to be strictly managed and monitored through the Group's established management structure, process, policies and guidelines as described in the aforementioned ESG management section.

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

(A) ENVIRONMENTAL

(a) Policy

The Group continues to act as a responsible corporation and has abided by all the national and local environmental laws and regulations. This is the bottom line and guiding principle of business operation of the Group. Through the implementation of our "Green Environmental Policy and Measures", our Group aims at integrating our operations and activities with the environment in a harmonious interaction by preventing pollution, achieving resource conservation and energy saving, striving for waste reduction and keeping all negative impacts towards the environment to a minimum.

(b) Compliance of the relevant laws and regulation that have a significant impact

The Group is principally engaged in the design, manufacture and sale of infant and children apparel, footwear and other accessories. Products are designed and manufactured either in our factory in Quanzhou, Fujian Province or are subcontracted to other factories in China. Our products are sold either in our wholly-owned or self-operated retail outlets or other wholesales channels throughout China.

The Group does not own or operate our own transport fleet. All logistic and transport operations are outsourced. In our manufacturing operations, raw materials, include substantial quantities of ready-made clothing fabrics and other accessories which are supplied by others. Normal amounts of packaging materials commensurate with product and production requirements are involved. These mainly include paper, carton boxes and wooden pallets.

Our production conceivably necessitates the normal use of electricity and an incidental amount of water. The amount and rate of consumption of our resources are typical of other operators of a similar scale in the garment manufacturing industry. Fresh water is used in the factory by the workers for daily household consumption in their quarter accommodations.

Being principally engaged in the garment production business, the Group does not produce, emit or discharge any serious hazardous gas emissions, pollutants, polluted water or wastes. Typical and consistent with other operators in the same industry, the manufacturing operation of the Group generates only non-hazardous greenhouse gas emissions indirectly through the use of electricity and other general wastes including packaging materials, paper and clothing fabrics.

In this regard, there are no laws and regulations which, in our view, are of significant impact to our production operations. We have reiterated herein that we have complied with the national and local environmental laws, and in the last 3 years, we did not receive any complaints, warning and/or fines from any environmental authorities.

Environmental Aspects

A1. Emission 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. The only non-hazardous greenhouse gas, namely carbon dioxide (CO_2), is generated indirectly through the use of electricity in the production processes and in our offices and retail outlets for ordinary heating and lighting. However, electricity consumption in the retail outlets is normally not under the sole control of the Group. Building Management Offices of the retail outlets are having the overall control on the supply of both lighting and air conditioning of our rented premises, which are normally included in the management fees. As a result, the Group only considered electricity consumption of our production and office use for ESG reporting.

Hazardous air emissions such as sulphur oxides ("**SO_x**"), nitrous oxides ("**NO_x**") and pollutants will normally be generated from direct use of diesel, petrol and other fossil fuels. Same as the last 2 years, as the Group does not own a large fleet of vehicles and has outsourced all its transport operations to outside transport operators, our petrol and other fossil fuel consumption is insignificant.

During the Reporting Period, the Group's operations and activities generated a total of 1,825.83 tonnes of indirect GHG-CO_2 from the use of electricity by our factory and offices, which was 146.92 tonnes or 7.45% less than 2018. Although the figures showed a normal rate of electricity consumption same as the previous years, the decreased in GHG-CO_2 emission was due to a decrease in production output in 2019, as compared with 2018.

For 2019, same as the last 2 years, the Group did not receive any emission complaints or warning notices from the local communities and relevant environmental agencies. With continuation of our GHG-CO_2 emission control measures, the Group targets to have 5% drop for the coming year.

(ii) Water Pollution and Discharge

Our operations and activities do not require much use of fresh water in our manufacturing process, other than that of the daily living uses of our staff and employees in our factory, dormitories and offices. Therefore, our operations and activities do not generate much polluted water. The fresh water used in our factory, dormitories and offices are provided and discharged without any problems through the respective centralized water supply and discharge network. Despite the insignificant amount of fresh water consumption, the Group continues to be alert and to educate the staff and workers to save and not to waste fresh water, one of the most valuable natural scarce resources in the world nowadays. We have regularly sent supervisors to inspect all the water taps to make sure that they have always been turned off whenever not in use. Same as the last 2 years, the Group did not receive any complaints or warnings from the local community or related government agencies on our fresh water consumption and polluted water discharge in the Reporting Period. We are confident that we will achieve the same result in the coming year.

(iii) Noise Pollution Emission

As reported in our last ESG report, 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. As such, our small volume of emitted noises does not cause noise pollution to the surrounding environment and local residents. Regarding our retail outlets, we do not generate any noise pollution as all the air-conditioning systems are centralized, and we, as well as most of the shopping malls and arcades, do not allow the use of amplifier to make disturbing noise 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. Same as the last 2 years, we did not receive any complaints related to noise emission in this Reporting Period. We are confident that we will continue to have zero complaints in this noise pollution aspect in the coming year.

(iv) Light Emission

As reported in our last ESG report, since all our manufacturing activities and operations are conducted inside the factory and offices, no light pollution is caused. Regarding our retail outlets, though we design and decorate our retail 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. In the Reporting Period, same as the last 2 years, there were no complaints or warning notices related to light emission. We are again confident that we will continue to have a clean and good record in the coming year.

(v) Hazardous and Non-hazardous Wastes Discharge and Disposal

As reported in our last ESG report, the Group's manufacturing process only 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, that are typical as a garment manufacturing operation, while the workers living in the factory dormitories produce general living wastes. All these 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 removed by the city urban cleaning services on a daily basis at a fee. During the Reporting Period, same as the last 2 years, the Group did not receive any complaints or warnings on our wastes disposal. We are again confident that we will continue with this clean and good record in the coming year.

(vi) Mitigation Measures and Reduction Initiatives

As previously explained, the Group's manufacturing and sale operations and activities do not generate any hazardous and non-hazardous emissions and discharges. Being a responsible corporation, we are conscious of the effects of our operations and activities may have on the environment. Given the straight forward and simple manufacturing and office operations of the Group, controlling and limiting the consumption of electricity is in our view the biggest achievable target in this area. Electricity consumption is more or less directly proportionated to our production scale in the main and there is not much room for large land slide scale improvements. The Group, however, is committed to making savings. The Group is contemplating to record and compare the electricity consumption of the production factory and main office on a monthly basis as a monitor. In addition, other up-to-date energy saving measures and devices will be looked into by the ESG Manager in all areas of the Group's operation. They include use of energy saving devices, minimizing use of electricity by administrative measures in conjunction with education and promotional programmes. With a reduction in electricity consumption, the indirect GHG-CO_2 emissions will automatically be reduced.

On conserving fresh water and other natural resources especially on paper and packaging materials consumptions, we have encouraged economical and recycling use of resources to reduce wastes generation and to prevent resource wastage.

To effectively control electricity, water and natural resources consumption, the Group has implemented the most basic measures, apart from alerting and educating the staff and workers on water, energy and natural resources consumption, appointed officers to regularly 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. We fully comply with all applicable environmental laws, rules and regulations and industrial standards in the markets.

A2. Use of Resources

The production and business operations of the Group do not entail a large variety of raw materials and resources. Ready to use fabric is our main production material and electricity is the principal resource required. A relatively small amount of water is used incident to our apparel production. The major water consumption lies in the living quarters of the employees for their general household uses like bathing and toilet flushing. While recognizing the need for resource conservation, the Group is also mindful of the needs of the employees for their health and hygiene purposes. We have a good balance to strike and therefore, the policy of the Group is pretty simple and straight forward in this regard.

There are a few small scale standby power generators in the factory which are meant to be put into use when a sudden power failure of the city supply occurs. Given the improving city supply reliability in recent years, the need for the standby generators declines and becomes insignificant. There is therefore a small amount of diesel fuel consumption in this regard, but the amount is insignificant and immaterial in comparison to electricity. Moreover, this energy resource is for standby use and there is little that the Group can determine to increase or decrease its consumption.

Although our operations and activities do not create significant impacts to the environment, the Group is committed to acting responsibly and aiming at minimizing such impacts to the environment and at the same time with cost saving as a bonus. The Group attaches great importance to promoting resource conservation in electricity, fresh water, papers and packaging materials. There are supervisory programmes on resource conservation instigated. Responsible officers are appointed to inspect factories, dormitories and offices to ensure that water, electricity and paper and other raw materials are efficiently used. For the reporting report, same as the last 2 years, 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. Given our patience of education, promotion and management, the Group is confident that we continue to have no abnormal uses or wastage of electricity, water, paper and packaging materials in the coming year.

(i) Direct and Indirect Electricity and Fuel Consumption

Electricity is the only energy resource for its manufacturing, offices and dormitories. Other energy resources like gas for heating are only very small in amount in comparison and immaterial in our view. The Group only sources electricity from the city grid. To save operational costs and to improve our environmentally friendly footprint, the Group has implemented measures as mentioned before to reduce energy consumption.

During the Reporting Period, the electricity consumption of our offices and production factory were respectively 236,045 kWh and 1,597,122 kWh as compared with 237,442 kWh and 1,741,247 kWh in the 2018 reporting period. The figures generally reflected a normal rate of consumption same as with previous years and do not have a cause for alarm. The figures recorded a reduction of 144,125 kWh or 8.27% over 2018 on the electricity consumption of the factory in 2019. This was in the main attributable to the corresponding decrease in production output in 2019 as compared with 2018, and to a small extent to the savings made through our energy saving measures.

(ii) Fresh Water Consumption

Same as before, there are 2 main sources in which water is used in the Group. Water is only incidental in the production process as there is no bleaching or dyeing carried out. The main consumption is for employee quarters household use. All the fresh water supply is from the central water supply network which is reliable and without any problem.

To save cost and conserve fresh water to ensure no wastage uses, the Group has encouraged 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. During the Reporting Period, same as the last 2 years, we did not find any abnormal or wastage uses of fresh water.

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

To save operational costs and improve our environmentally friendly footprint, the Group continues to implement the following measures to reduce paper and packaging materials 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 use both sides and recycled paper and reuse stationery such as envelopes, document folders etc.; and
- Recycled paper has been sourced and directly used for our garments and apparels packaging.

During the Reporting Period, we used a total of 206 boxes of paper during our operations and a reduction of only 1 boxes or 4.8% compared to 207 boxes used in 2018 which was mainly due to the reduction in turnover.

As a garment manufacturer, 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, as a guiding principle, we have always encouraged our designers to choose and design environmentally friendly garments by using natural fibers.

A3. The Environment and Natural Resources

As reviewed above, we have not polluted the air, water and land in the areas that we are operating. As a dedicated operator who has keen interest in the environment and natural resources, the Group ensures that such a belief is well implemented in our business operation and in particular the production processes and products. We have complied with all the national and local environmental laws, rules and regulations, and industry standards, and at the same time have implemented measures to reduce energy, fresh water, paper and packaging materials consumptions.

In our manufacturing process, we used to use plastic and paper to pack our garments and apparels. The management has already instructed the design team to source and use recycled paper and lesser plastic materials for packaging and shopping bags for our retail outlets.

Given the nature of our clothing products, a substantial quantity of natural and synthetic fibers, such as cotton, jute and nylon, etc. are used. The Group is conscious of the environmental impacts of the raw materials chosen for our final products. Designers and production personnel have been instructed to design environmentally friendly garments and apparels by using natural fibers as far as the products allow.

We have also promoted environmental education and advocacy amongst our employees with a purpose to motivating 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.

A4. Climate Change

The Group understands that stakeholders expect us to be managing and mitigating climate change risks in line with local and global commitments and recommendations. After communication with the stakeholders and reviewing of the Group's operations and activities in light with the current global environmental conditions, the Board identifies that global warming and reduction on the use paper and paper related packaging materials will be the most significant climatic issues that may impact the Group. These two climatic issues not only affect the operation costs of the Group, they will also affect the global environmental conditions.

Nowadays, it is generally agreed that global warming is mainly caused by the excessive release of GHG-CO_2 into the atmosphere, which is directly and indirectly the result of uses of fossil fuels for transportation and electricity generation. For the Reporting Period, although the Group's operations and activities did not directly generate any GHG-CO_2 emission, we did generate GHG-CO_2 indirectly through the use of electricity. We have implemented policies and measures, explained before, to use electricity efficiently to reduce indirect GHG-CO_2 emission, which is a main contributor of global warming. Through reduction on usage of paper or paper-related packaging materials, we wish to indirectly reduce the cutting of trees, which will directly assist on curbing global warming as well.

For the Reporting Period, the Group's business operations and activities did not lead to any events or issues that might impact the climate or result in the change of the climate significantly. The Group has already taken measures to lower indirect GHG-CO_2 emission and to reduce paper and paper-related packaging materials usage with a wish to curb global warming. The Group will continue with such measures for the coming year.

(B) SOCIAL AREAS AND ASPECTS

It is the belief and recognition of the Group that a harmonious relationship with our other stakeholders like employees, business partners, government officials, customers and suppliers will bring about more overall mutual benefits to every party including the society as a whole. This rationale and idea together with transparency, mutual respect and honesty are the corner stone of our business philosophy and have been an integral part of our business operation.

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

(I) Employment and Labour Practices Areas

The Group continues to hold the belief that employees is one of its most valuable assets and our success depends on the commitment, passion, productivity and quality of our employees. The Group has therefore ensured that all the Human Resource policies and measures made are in accordance with the national labour laws. Abiding by the law is the bottom line of our operating guiding principle which is to be observed and followed by all levels. Our Human resources policies and measures are also clear, equitable and humanistic, and have 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 discrimination on sex, religion, race and marital status in our operation activities including but not limited to employment terms, promotion and welfare benefits.

Same as before, the Human Relations Department is charged with the duty and responsibility of all employment and employee welfare matters. Recruitment and appointment are based on objective merits. Qualified employees are offered the appointment with competitive wages and benefits commensurate with the market rate. Where necessary and required, training and promotion are provided. Position openings stipulating with jobs requirements are offered in the open market or through employment agencies. The selection process has been standardized and positions will be offered after background checks, tests and interviews as necessary by our human resources department. Recruitment of all employees is carried out by the Human Resources Department except that senior managers are decided by the CEO of the Group. It should be noted that, many of our positions are offered to low-skilled or semi-skilled female rural workers who need extensive in-house training on their work. Our policy is to try to provide a career path to enhance their sense of belonging.

For 2019, the Group honored all of our employment and labour welfare obligations. All benefits, salaries and wages, employees' social insurance and other contractual benefits accrued or due are timely settled and paid out. Same as in previous years, no labor disputes were recorded in court.

B1. Employment Aspect

(i) Employment Mix

At the year end of 2019, the Group's total employee headcount was 365, which was the same number as 2018. Despite a significant drop in our turnover, the Group did not lay-off any workers and staff and still tried to keep their jobs as the Group believes that it is one of our social obligations.

For 2019, our employment mix had the following features:

- On female to male mix – 187 or 51.2% (2018: 192 or 52.6%) were female and 178 or 48.8% (2018: 173 or 47.4%) were male, and the female to male ratio was quite close to 2018;

- On roles mix – 84 or 23% (2018: 87 or 23.8%) were on managerial roles, 76 or 20.8% (2018: 80 or 21.9%) were on operational including sales jobs, and 205 or 56.2% (2018: 198 or 54.2%) were on factory labor jobs. The role mix in 2019 and 2018 were quite similar.

- On age mix – 71 or 19.5% (2018: 59 or 16%) were under 30; 232 or 63.6% (2018: 244 or 66.7%) were between 31 to 40; 36 or 9.9% (2018: 33 or 9.1%) were between 41-50; 24 or 6.5% (2018: 28 or 7.7%) were 51-60; and 2 or 0.5% (2018: 2 or 0.5%) were above 60. Our main aged group was 31-40 which was in garment industry. The age mix of 2019 and 2018 was not much difference.

- On Full and Part Time mix: 365 or 100% were full time employees (2018: 365 or 100% full time employees). The Group had no part-time workers for both 2019 and 2018.

- On sources mix – same as last year, nearly 90% of our employees were from the country-side.

The above analysis evidenced that the Group had a stable work-force in the last years, and the turnover rate was quite small. These evidenced that our workers and staff had been satisfied with our "employee-oriented" human resources polices and measures.

(ii) Employee Compensation and Package

The Group continues to strictly comply 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 have holidays and such contracts are filed with the local Human Resource Bureau.

We paid competitive market salaries and wages to our employees, and for special talented, skilled and qualified employees, we remunerated 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 provided and maintained 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 the Reporting Period, same as 2018, the Group did not have any employment related legal disputes on record.

B2. Health and Safety Aspect

Though the nature of business and production operation of the Group is not considered to be high risk in nature, the Group however attaches no less concern and importance to the health and safety of the workplace and living quarters.

Caring of and concern for our staff and employees are the primary objective in our employer responsibilities. The Group reckons that staff and employees are a valuable asset and are instrumental to our sustainable development and success.

The Group has committed to providing a healthy and safe working and living environment in the workplace and employee quarters.

For the purpose of preventing accidents and injuries to the employees, the Group has taken steps to ensure that all the plants and equipment in the factory are safe for its intended use with proper repair and maintenance. In addition, safety training and supervision are provided to ensure that work can be carried out without risk and injuries. Emergency plans have been in place to respond to general emergencies of various nature and scale.

Work safety instructions and guidelines are provided in the Employee Handbook to accomplish safe operation and all employees are required to observe the safety rules of the workplace. Supervisors at different levels have a responsibility to ensure that safety rules and regulations are adhered to and complied with. Safety information and instructions are integrated with day-to-day instructions, trainings and guidance. All employees are required to report any risk spotted to their superiors immediately, who will then take appropriate measures to ensure that safety is not being compromised. All work-related accidents are required to be reported to the immediate supervisor for investigation or appropriate remedial actions to be taken or to remove the risk.

As a rule of thumb and guiding principle, the applicable standards in the relevant National Safety Laws and Codes of Safety in PRC are the ones that the Group must adopt and adhere to in our business operations. Strict compliance of such standards and guidelines is a must and is our safety bottom line.

During the Reporting Period, with no complacency, the Group is proud to confirm that there had no work-related fatality, same as the past 2 reporting years. It should be noted that this is due, in our view, mainly to the relatively low risk of our business operation and the safety consciousness of the Group at all levels. For the coming year, the Group will work hard to maintain zero fatality and injury record.

B3. Development and Training Aspect

The Group recognizes the value and contribution of our employees and is committed to investing in staff training and development.

Given the fact that most of our factory employees come from rural areas with little or no prior production skills, the Group instigates a vocational training policy for new production employees. They will receive 1 to 3 months on-the-job training under the guidance and supervision of their supervisors.

Likewise, for retail outlet employees, in-house on-the-job sales training is also provided to inexperience newcomers. Sales skills and emotion handling are some of the topics in the training. All training course expenses are fully covered by the Group.

As a career progression path, the Group encourages factory employees to move across to the retail outlets. This enables staff motivation and enhances cultivating some sense of belonging with promotion incentive backing. There is also the added benefit of providing ready-made manpower resource from within. In fact, most of our retail outlet managers have been trained and promoted from within our lower rank employees. The Group has and will continue with this policy of providing employment opportunities to unskilled rural labourers and assisting them with a career path.

The Group also continues to arrange senior managers or professionals to provide technical and occupational advice and guidance and short term training to junior staff. Staff members are also sponsored to attend external training programs relevant to their work to improve their skills and knowledge. This is a way to broaden their career development.

These training programs include production safety, fire-prevention, sales and marketing, sales outlets and division management. The level and content of training are considered suitable and adequate for operational needs and comparable to previous years. New topics will be introduced where considered necessary by the operations departments.

On the success footprint of 2018, the Group continued with our training policy like before. In 2019, apart from on-the-job training, the Group provided a total of 132 training hours of which 120 hours are conducted by external expertise and resources and 12 hours by internal. Of the 120 hours of external training, they were attended by a total of 39 male and 30 female operational staff. The aggregate 12 hours in-house training was provided to a total of 195 male and 144 female staff. Comparing with 2018, there were 408 total number of workers and staff received a total of 132 hours of trainings which were 2 persons more than and 3 hours more than 2018. In term of average hour/trained worker/staff, 2019 was 0.323 hour against 0.317 in 2018, which was basically the same times given. The Group already planned to continue with the training programs given to our workers and staff as a mean to maintain and to enhance their qualities and skills.

B4 Labour Standards Aspect

The national labour protection laws and standards are the minimum safety standard of the Group. The "Labor Law of the PRC"《中華人民共和國勞動法》and "Employment Ordinances of the HKSAR are the two major labor safety protection laws applicable to the business operations of the Group. Though the Group does not see any major impact to our business operation, we however attach great importance and attention to ensure our obligations are fully and timely carried out. Strict compliance of the legislative requirements is our bottom line and guiding principle of our business operations. Any breach of such national laws will be brought to the attention of the senior management and attended to without delay.

The Group believes that frank and mutual communication between staff and management are constructive and effective in enhancing and improving work safety. Measures and policies have already been in place to encourage open dialogue on work safety in a regular and ongoing manner. Employee representatives have been invited to take part in regular work safety meetings to contribute ideas and suggestions in areas like working conditions, health and safety and employment terms and conditions.

All recruitments are done after the proper certificates and documents are provided and documented in the Human Resources Department. Private files of employees are kept on confidential basis and only available for inspection with the approval of the authorized officer.

The Group has also committed to a no child labour and forced labour employment policy. The role and responsibilities of the Human Resources are to ensure that such infringements are not and should not be committed as a first line of upholding this policy. The Department will be held responsible for any breaches found and the relevant officer will be subject to severe action taken against him or her. All enquiries, concerns, complaints in this regard will be referred to and investigated by the senior management.

For the Reporting Period, same as 2018, the Group honored all its obligations towards the employees and has built a safe, healthy, harmonious and pleasant working environment in all our offices, and no labor disputes or litigations was reported.

(II) Operation Practices Areas & Aspects

B5. Supply Chain Management Aspect

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 for factory production and printing papers and office utensils for offices uses.

Over the years, the Group has already developed a matured set of procurement policy and a standardized procurement process. Given a relatively simple business operation nature of the Group, the Group maintains a list of suppliers. For any purchases, 2 to 3 suppliers are invited to provide quotations for our selection and decision. Suppliers are selected on a set of criteria, which includes (i) ability to meet specification and standards; (ii) products and services quality; (iii) pricing; (iv) delivery reliability; (v) track records of the suppliers' business relationships with us and others in the industry; and (vi) their law compliance record.

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 show support and involvement in environmentally friendly and socially responsible practices and programmes. The Group prefers suppliers who use recyclable and natural materials and employ handicapped workers.

Given the straightforward production process and simple product lines of the Group, we are able to source our raw materials and accessories from local supplies without much difficulties. This directly reduces the carbon footprint involved and carbon dioxide emission. During the Reporting Period, all purchases were made with 17 (2018: 26) local suppliers. The reduction in the number of suppliers was mainly due to a substantial drop on our turnover.

The choice and selection of a supplier for a certain purchase order will followed the purchase criteria as mentioned above. Normally, a decision is arrived at after examining and weighing the various selection criteria. In general, no single value or criterion will be overriding. In some rare cases, however, some criteria, for example the availability at short notice, may become overriding and is judged and handled on a case by case basis.

As can be seen, social risks of a supplier are also part of our selection criteria and consideration. When a supplier is found seriously fall foul of the law, it will be removed from the supply chain and new ones will be sourced and established. Admittedly, the Group will have to rely on public information in the main or other trade sources. We rely on the quality of our end products to ensure that raw materials or accessories measure up to our specification and standard.

The product policy of the Group is to promote and manufacture children and infant apparels using natural and safe materials which are environmentally friendly and without risk to the end users. Obviously and naturally, this becomes an overriding and guiding principle in selecting preferable products and services. Materials and accessories failing to measure up to our specification and requirements are rejected and declined automatically in the selection process.

B6. Product Responsibility Aspect

There are four major aspects to our Group's product responsibility policies and practices: product quality and safety, customer services and complaints handling, intellectual property rights and privacy.

The Group continues to design, manufacture and sell middle to high priced children and infant apparel, footwear and accessories under our own registered trademark "Red Kids" brand via a network of 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", it is our cornerstone sale policy that we assure the buyers to pay for guaranteed quality products.

- Product quality and safety

  The Group continues with its 'quality guarantee policy" and 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 the Reporting Period, same as the last 2 years, there were no record of major sales returns from buyers or complaints or warnings from the Consumer Councils or relevant government authorities on the quality and safety issues of our products.

- Customer Services and Complaints Handling

  Same as the last few years, our products are sold through both retail outlets and wholesale network. The Group provides industry standard guarantees and returns and refund programs if there are quality problems. 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.

  The Group is proud to confirm that there were no major sales returns or complaints due to any product defects during the Reporting Year, same as the last 2 years.

- Intellectual Property Rights

  Since our establishment, the Group has designed, manufactured and sold children and infant apparel, footwear and accessories under its trademarked brand name "Red Kids". We promote originality on all our apparel, footwear and accessories and design in-house. The Group attaches great importance to and seriousness in protecting and preserving our intellectual property rights. We have observed the rules for the protection of intellectual right.

  During the Reporting Period, and same as last few years, the Group did not receive any reports or cases of any intellectual property rights infringement.

- Quality Assurance Process

  As disclosed before, the Group attaches significant importance to the quality assurance aspect of our products as we firmly believe that this is the most important factor for the success of our brand name, Group reputation and customer loyalty. The Group has invested substantially on modern production facilities, and our professional design and management team. The Group has 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 Kids Fashion Brands Award

We provide industry standard guarantee and instigate a policy for return and refund for product quality reasons. The customer service unit is charged to collect and analyze return and reject cases, and provide recommendations to the management for improvement review and consideration. All our retail outlet mangers have been trained to handle customer complaints.

Same as in previous years, we are proud that we had no major sales returns or complaints due to product defects during the Reporting Period.

- Privacy

Arising from the Group's business operations, large volumes of private and confidential and sensitive information of suppliers, co-operation partners including the cooperation status and financial positions, commercial terms of contracts, etc. are inevitable and stored. The Group is fully aware that such information is extremely sensitive and important, and by law must be safeguarded.

The Group is fully aware of our obligations and has taken measures to ensure the safe custody of such information. Potential leakage or loss of information to outsiders could be mainly due to either internal theft through mishandling or hacking into our information systems by outside agents.

The Group has established and implemented administrative security rules and supervisory control procedures to ensure maximum information technology security and data protection. This is supplemented by the relevant provisions in the Employee Handbook and employment contracts stipulating for the protection of information confidentiality. Employees are strictly prohibited from accessing to or release of confidential information without authorized approval from the management. Legal action might be taken against any breach of privacy data violations. To prevent hacking to our IT systems, the Information Technology Division is charged with the duty and responsibility of continuously monitoring, maintaining and updating all hardware, software and for computer and network system security.

For the Reporting Period, same as the last 2 years, there was no case filed against us nor any complaint received, regarding any breach of relevant privacy laws, regulations and policies in the jurisdictions in which we operate. The Group will continue with the current policies and measures to maintain a clean record in the coming years.

B7. *Anti-corruption Aspect*

Being an honest and creditable business operation, the Group attaches serious importance and concern in this aspect as any breaches may lead to serious consequences and liabilities to individual officers and office bearers of the Group. We rely on the strict administrative procedures and supervisory measures on this regard to ensure that such breaches or violations are eliminated or could be detected at an early stage before any serious harm is caused.

Employees found in breach of such are subject to severe disciplinary sanction including immediate dismissal.

All matters relating to this aspect are only handled by the topmost management. The Group is committed to rendering all possible assistance and co-operation to the government or law enforcing agencies in their enquiry or investigation.

During the Reporting Period, there was no case on corrupt practice against the Group or our employees, same as the previous years. With our management, the Group is confident that corruption case will not happen.

Mutual respect, open and sincere dialogues by employees and the management are part of the culture of the Group. The periodic meetings between employee representatives are the common and formal venues to resolve employee needs, views, suggestions and even grievances. This mode of communication in a fair and earnest manner is helping to streamline and minimize whistle-blowing. The Group encourages all whistle-blowing acts and activities and makes sure that there are sufficient protection of such whistle blowers. Messages received will be looked into by the management team at the appropriate level in a timely and impartial manner.

Staff are reminded from time to time of the importance of and need for business integrity and that corruption is not allowed in the Group operations. Whenever training opportunities arise, staff at the appropriate levels, including directors and senior managers, will be nominated to attend and this is an ongoing exercise.

B8. *Community Investment Aspect*

The Group fully supports this concern for the community idea and concept and our operating policies and business approach are taking note of its implications and significance to the communities we operate. If possible, we tried to source materials, supplies and services from our operating communities. We provided a pleasant and safe working environment to our workers, and most importantly we provided jobs to several hundred village unskilled workers and trained them up to make a decent living. We also provided them with the chances to promote to higher status jobs. We supported the local community through sending our workers to do voluntary and charity works.

The Board hereby presents the Corporate Governance Report in the Group's annual report for the year ended 31 December 2019.

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 FY2019, 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 FY2019, 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 FY2019, 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 FY2019.

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 43 to 45 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	9/9
Mr. Ding Peiyuan	1/1	9/9
Ms. Ding Lizhen	1/1	9/9
Mr. Hung Cho Sing	1/1	9/9
Mr. Chan Wai Wong	1/1	9/9
Mr. Wu Shiming	1/1	9/9

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	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 2019. 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	2/2
Mr. Chan Wai Wong	2/2
Mr. Wu Shiming	2/2

(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 2019. 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 2019 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 2019. 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 2019.

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.

COMPANY SECRETARY

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

Mr. Pang confirmed that he has taken not less than 15 hours of relevant professional training during the year ended 31 December 2019.

The biographical details of the Company Secretary are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 43 to 45 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 2019, the fees payable to HLB Hodgson Impey Cheng Limited in respect of its audit services were RMB1.2 million (2018: 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 2019 and 2018.

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 Company Secretary 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 2019.

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

EXECUTIVE DIRECTORS

Mr. Ding Peiji, aged 50, 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)appointed in September 2009, the vice president for the first and second term of the Quanzhou Textile & Garments Commerce Chamber(泉州市紡織服裝商會)appointed in May 2002 and November 2008, respectively, a standing council member for the first term of the Federation of Industry & Commerce of Quanzhou Qingmeng Scientific & Technological Industrial Zone(泉州市清濛科技工業園區工商業聯合會) appointed in August 2002, and a Supervisor of Qingmeng Scientific & Technological Industrial Zone for Honest and Efficient Governance(清濛科技工業區勤政廉政監督員)appointed in July 2002. He completed the Advanced Management Programme by China Europe International Business School (中歐國際工商學院)in 2010.

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

Mr. Ding Peiyuan, aged 48, 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 55, 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 80, 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 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 Oshidori International 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 non-executive director of Universe Entertainment and Culture Group Company Limited (stock code: 1046) from 1 February 2019 to 31 July 2019, 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 32, 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 44, was appointed as an independent non-executive Director of our Company on 16 July 2018. 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 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, 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 and China Putian Food Holding Limited (Stock Code: 1699) from 7 February 2012 to 5 July 2019. All shares of which are listed on the Main Board of the Stock Exchange.

SENIOR MANAGEMENT

Mr. Pang Wing Hong, aged 49, was appointed as chief financial officer and the company secretary 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.

Mr. Pang has been an independent non-executive director of Morris Holdings Limited, the shares of which are listed on Stock Exchange (stock code: 1575) since 12 April 2019.

Ms. Ding Wanwan, aged 47, 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.

COMPANY SECRETARY

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

REPORT OF THE DIRECTORS

The Directors hereby present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

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 2019, aggregate sales to the Group's largest and five largest customers accounted for 8.8% (2018: 9.4%) and 37.0% (2018: 31.2%), respectively, of the Group's total turnover for the year.

During the year ended 31 December 2019, aggregate purchases from the Group's largest and five largest suppliers of raw materials and OEM products accounted for 18.7% (2018: 16.5%) and 68.1% (2018: 57.2%), 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 2019 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 150 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 2019 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 61 to 149 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 2019 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 27 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

The distributable reserve of the Company as at 31 December 2019 was RMB152,915,000 (2018: RMB258,524,000) as calculated based on the Company's share premium, 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 2019 (2018: Nil).

No interim dividend was paid for the year of 2019 (2018: Nil).

CHARITABLE DONATIONS

No charitable donations were made by the Group during the year of 2019 (2018: Nil).

SHARE CAPITAL

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

PRINCIPAL RISKS AND UNCERTAINTIES

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

(i) Fashion risk

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

(ii) Intense competition

We compete not only with local Chinese brands, but also with other international fashion brands. Areas of competition include product designs, production costs, marketing programs, customer services, 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 2019 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 2019.

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

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 43 to 45 of the annual report. In accordance with article 84 of the Company's articles of association, Mr. Ding Peiyuan and Mr. Hung Cho Sing will 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 2019.

RELATED PARTY TRANSACTION

Details of the significant related party transactions entered into by the Group during the year ended 31 December 2019 are set out in note 31 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 2019, 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	248,176,694	25.22%
		Beneficial owner	3,732,000	0.38%
		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	42,312,000	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 2019, 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.

Save as disclosed above, as at 31 December 2019, 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 2019, 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	248,176,694	25.22%
Mr. Ding(1)	L(4)	Interest in a controlled corporation	248,176,694	25.22%
		Beneficial owner	3,732,000	0.38%
		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	42,312,000	4.29%
Mr. Ding Peiyuan(3)	L(4)	Interest in a controlled corporation	42,312,000	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 2019 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 2019, 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 31 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 31 to the financial statements, there had been no contract of significance between the Company or any of its subsidiaries and controlling Shareholders (as defined in the Listing Rules) of the Company or any of its subsidiaries 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.

Name	As at 1 January 2019	Number of Pre-IPO Share Options Granted during the year	Exercised during the year	Forfeited during the year	As at 31 December 2019
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.

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 2019 which have been granted under the Share Option Scheme are as follows:

Name	Outstanding as at 1 January 2019	Granted during the year ended 31 December 2019	Exercised during the year ended 31 December 2019	Cancelled during the year ended 31 December 2019	Outstanding during the year ended 31 December 2019	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	25,800,000	–	–	–	25,800,000	0.107	2 November 2018	2 November 2019 - 1 November 2028
Others*	32,000,000	–	–	–	32,000,000	0.107	2 November 2018	2 November 2019 - 1 November 2028
Total	80,000,000	–	–	–	80,000,000			

* Comprise of customers and consultants of the Company.

As at the date of this report, no share option granted the Share Option Scheme were lapsed during the year ended 31 December 2019.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

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

RETIREMENT SCHEMES

The Group participates in defined contribution retirement benefit schemes organized by the PRC municipal and provincial government authorities for the Group's eligible employees in the PRC, and operates a Mandatory Provident Fund scheme for the employees in Hong Kong. Particulars of these retirement plans are set out in note 25 to the financial statements.

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

(i) On 12 December 2019, Red Kids (China) Co., Ltd ("Red Kids China"), entered into the Sale and Purchase Agreement with 上海晏河建設勘測設計有限公司("Shanghai Yanhe"), pursuant to which Red Kids China has agreed conditionally to sell, and Shanghai Yanhe has agreed conditionally to purchase Building No. 3 (also known as Building No. 7), Shanghai Shangzhifang Fashion Culture Creative Park, No. 6066 Songze Avenue, Qingpu District, Shanghai, PRC, for an aggregate consideration of RMB26,300,000. The disposal transaction has been approved by the shareholders at the extraordinary general meeting on 12 February 2020 and the transfer was already completed. For further details, please refer to the announcement of the Company dated 12 December 2019, 7 January 2020, 24 January 2020 and 12 February 2020.

(ii) Since January 2020, the outbreak on Novel Coronavirus ("COVID-19") has impacted the global business environment. Pending the development and spread of COVID-19 subsequent to the date of the financial statements, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of these financial statements. The Group will continue to monitor the development of COVID-19 and react actively to its impact on the financial position and operating results of the Group.

AUDITORS

Following the resignation of KPMG ("**KPMG**") as auditors of the Company on 21 April 2016, HLB Hodgson Impey 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, 7 May 2020

國衛會計師事務所有限公司
HODGSON IMPEY CHENG LIMITED

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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 67 to 149, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 goodwill and intangible assets **Refer to notes 3, 12 and 14 to the consolidated financial statements**	
The Group has goodwill and intangible assets of approximately RMBNil and RMB2,811,000 as at 31 December 2019. Management performed impairment assessment of goodwill and intangible assets and concluded that an impairment loss on goodwill and intangible assets of approximately RMB27,712,000 and RMB22,815,000 were recognised. This conclusion was based on the higher of its value in use model or its fair value less cost of disposal 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 respect of the impairment assessment on goodwill and intangible assets in order to support management estimates.	Our procedures in relation to management's impairment assessment included: • Evaluating the independent valuer's competence, capabilities and objectively; • Assessing the appropriateness of the valuation methodologies, key assumptions and estimates 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 management judgement and estimates used to assess the recoverability of cash-generating unit and determine the impairment provision were supported by available evidence.

Key audit matter	How our audit addressed the key audit matter

Allowance for expected credit loss recognised on trade receivables
Refer to notes 2, 3 and 18 to the consolidated financial statements

As at 31 December 2019, the Group had gross trade receivables of approximately RMB68,718,000 and reversal of allowance for expected credit loss of approximately RMB937,000.

Management performed periodic assessment on the recoverability of the trade receivables and the sufficiency of allowance for expected credit loss of 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 management's estimated allowance for expected credit loss of trade receivable as at 31 December 2019 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 2019 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 judgement 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
Carrying value of inventories **Refer to note 17 to the consolidated financial statements**	
As at 31 December 2019, the Group had inventories of approximately RMB49,897,000. 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 RMB29,458,000 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 Tien Sun Kit, Jack.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Tien Sun Kit, Jack
Practising Certificate Number: P07364

Hong Kong, 7 May 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019 (Expressed in Renminbi)

	Note	2019 RMB'000	2018 RMB'000
Turnover	4	**166,031**	214,435
Cost of sales		**(136,558)**	(175,772)
Gross profit		**29,473**	38,663
Other revenue	5	**1,089**	2,480
Other net loss	5	**–**	(48)
Share of results from an associate		**239**	880
Written down on inventories	6(c)	**(29,458)**	(25,364)
Bad debts written off on trade receivables	6(c)	**(31,018)**	(12,359)
Reversal of/(allowance for) expected credit loss on trade receivables, net	29(a)	**9,296**	(8,093)
Impairment loss recognised on goodwill	12	**(27,712)**	(16,671)
Impairment loss recognised on intangible assets	14	**(22,815)**	–
Loss on the remeasurement of asset classified as held for sale	6(c)	**(4,725)**	–
Selling and distribution expenses		**(138,028)**	(128,346)
Administrative and other operating expenses		**(33,996)**	(45,083)
Loss on derecognition of convertible bonds	6(c)	**(1,217)**	–
Loss from operations		**(248,872)**	(193,941)
Finance costs	6(a)	**(7,517)**	(7,557)
Loss before taxation	6	**(256,389)**	(201,498)
Income tax expenses	7(a)	**(1,904)**	(188)
Loss for the year attributable to shareholders of the Company		**(258,293)**	(201,686)
Other comprehensive income/(loss) for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of overseas subsidiaries		**2,014**	(392)
Total comprehensive loss for the year attributable to shareholders of the Company		**(256,279)**	(202,078)
Loss per share (RMB cents)			
– Basic and diluted	10	**(26)**	(21)

The notes are an integral part of those consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019 (Expressed in Renminbi)

	Note	2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment	11	**61,963**	96,394
Intangible assets	12	**2,811**	43,952
Lease prepayments	13	**–**	2,589
Right-of-use assets	13	**2,501**	–
Deposits for purchase of property, plant and equipment		**1,005**	282
Goodwill	14	**–**	27,712
Deferred tax assets	15(b)	**–**	1,904
Investment in an associate	16	**46,676**	46,437
		114,956	219,270
Current assets			
Inventories	17	**49,897**	69,414
Trade receivables	18	**67,781**	139,806
Prepayments, deposits and other receivables	19	**39,117**	118,228
Fixed deposits at banks with original maturity over three months		**–**	40,000
Cash and cash equivalents	20(a)	**32,102**	3,555
		188,897	371,003
Asset classified as held for sale	21	**26,300**	–
		215,197	371,003
Current liabilities			
Trade and other payables	23	**38,781**	14,017
Bank loans	22	**45,000**	62,000
Convertible bonds	24	**–**	32,147
		83,781	108,164
Net current assets		**131,416**	262,839
Total assets less current liabilities		**246,372**	482,109

The notes are an integral part of those consolidated financial statements.

	Note	**2019 RMB'000**	2018 RMB'000
Non-current liabilities			
Deferred tax liabilities	15(b)	**1,300**	1,300
Convertible bonds	24	**13,503**	–
		14,803	1,300
Net assets		**231,569**	480,809
Equity			
Share capital	27	**7,833**	7,833
Reserves		**223,736**	472,976
Total equity		**231,569**	480,809

Approved and authorised for issued by the board of directors on 7 May 2020:

Director
Ding Peiji

Director
Ding Lizhen

The notes are an integral part of those consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019 (Expressed in Renminbi)

	Note	Share capital RMB'000	Share premium RMB'000	Share-based payment reserve RMB'000	Capital reserve RMB'000	Convertible bond reserve RMB'000	Exchange reserve RMB'000	Statutory reserve RMB'000	Retained profits/ (accumulated loss) RMB'000	Total RMB'000
		27(b)	27(c)(i)	27(c)(iv)	27(c)(v)	27(c)(vi)	27(c)(iii)	27(c)(ii)		
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 and 1 January 2019		7,833	272,205	5,842	145,549	13,641	9,384	58,134	(31,779)	480,809
Change in equity for 2019:										
Loss for the year		–	–	–	–	–	–	–	(258,293)	(258,293)
Other comprehensive income		–	–	–	–	–	2,014	–	–	2,014
Total comprehensive loss		–	–	–	–	–	2,014	–	(258,293)	(256,279)
Redemption of convertible bonds I		–	–	–	–	(13,641)	–	–	13,641	–
Recognition of equity component of convertible bonds II		–	–	–	–	4,141	–	–	–	4,141
Equity-settled share-based transaction		–	–	2,898	–	–	–	–	–	2,898
Balance at 31 December 2019		**7,833**	**272,205**	**8,740**	**145,549**	**4,141**	**11,398**	**58,134**	**(276,431)**	**231,569**

The notes are an integral part of those consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2019 (Expressed in Renminbi)

	Note	2019 RMB'000	2018 RMB'000
Operating activities			
Cash generated from/(used in) operations	20(b)	**18,181**	(73,207)
Income tax paid		**–**	(61)
Net cash generated from/(used in) operating activities		**18,181**	(73,268)
Investing activities			
Receipt of deposit from asset classified as held for sale		**18,300**	–
Payment for the purchase of property, plant and equipment		**(6,944)**	(5,114)
Receipt of fixed deposits at banks with original maturity over three months		**40,000**	67,000
Interest received	5	**143**	1,918
Net cash generated from investing activities		**51,499**	63,804
Financing activities			
Net proceed from issue of shares		**–**	26,730
Proceeds from bank loans		**47,500**	62,000
Repayment of bank loans		**(64,500)**	(56,950)
Repayment of convertible bonds	24	**(18,630)**	–
Repayment to related parties		**–**	(16,881)
Interest paid	6(a)	**(7,517)**	(3,235)
Net cash (used in)/generated from financing activities		**(43,147)**	11,664
Net increase in cash and cash equivalents		**26,533**	2,200
Cash and cash equivalents at 1 January		**3,555**	1,972
Effect of foreign exchange rate changes		**2,014**	(617)
Cash and cash equivalents at 31 December	20(a)	**32,102**	3,555

The notes are an integral part of those consolidated financial statements.

1. GENERAL INFORMATION

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

As at 31 December 2019, the directors of the Company consider the immediate and ultimate controlling parties to be Think Wise Holdings Investment Limited and Mr. Ding Peiji respectively.

During the year, the Company and its subsidiaries (collectively 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.

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 2019 comprise the Company and its subsidiaries (together referred to as the "**Group**").

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are accounted for in accordance with IFRS 16 (since 1 January 2019) or IAS 17 (before application of IFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

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

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

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.

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

The accounting policies adopted in the consolidated financial statements for the year ended 31 December 2019 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018 except as described below.

The Group has applied the following new IFRSs and amendments to IFRSs issued by the International Accounting Standards Board (the "**IASB**") for the first time in the current year:

IFRSs (Amendments)	Annual Improvements to IFRSs 2015-2017 Cycle
IFRS 9 (Amendments)	Prepayment Features with Negative Compensation
IFRS 16	Leases
IAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement
IAS 28 (Amendments)	Long – term Interests in Associates and Joint Ventures
IFRIC – Int 23	Uncertainty over Income Tax Treatments

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

Impacts and changes in accounting policies of application on IFRS 16 "Leases"

IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 Leases ("**IAS 17**"), and the related interpretations.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

Impacts and changes in accounting policies of application on IFRS 16 "Leases" (Continued)

Definition of Leases

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a Lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying IFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

(i) elected not to recognise right-of-use assets and lease liabilities for leases with lease term ending within 12 months of the date of initial application;

(ii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

(iii) applied a single discount rate to a portfolio of leases with similar remaining terms for similar class of underlying assets in similar economic environment; and

(iv) relied on the assessment of whether leases are onerous by applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

Impacts and changes in accounting policies of application on IFRS 16 "Leases" (Continued)

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

	1 January 2019
	RMB'000
Right-of-use assets relating to operating leases recognised upon application of IFRS 16	–
Add: Reclassification from lease prepayments	2,589
	2,589
By class:	
Leasehold lands	2,589

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

Impacts and changes in accounting policies of application on IFRS 16 "Leases" (Continued)

Right-of-use assets (Continued)

The following table summarises the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amount previously reported at 31 December 2018 RMB'000	Reclassification RMB'000	Adjustments RMB'000	Carrying amount under IFRS 16 at 1 January 2019 RMB'000
Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:				
Right-of-use assets	–	2,589	–	2,589
Lease prepayments	2,589	(2,589)	–	–

(d) Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes. Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent impairment losses, if any

Depreciation is recognised so as 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

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Lease prepayments (prior to adoption of IFRS 16 on 1 January 2019)

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, if any. Amortisation is charged to profit or loss on a straight line basis over the respective periods of the rights.

(f) Intangible assets

Intangible assets with finite useful lives that are acquired separately are stated at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over their assets' estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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.

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 with finite useful are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis an intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Interest in associate

An associate is an entity over which the investor has significant influence. 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.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate, 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 in the period in which the investments is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Interest in associate (Continued)

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of IFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate 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) upon disposal/partial disposal of the relevant associate.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Operating lease charges (prior to adoption of IFRS 16 on 1 January 2019)

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.

(i) 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;

– right-of-use assets/lease prepayments;

– intangible assets;

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

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets/lease prepayments and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with an indefinite useful life are tested for impairment at least annually and whenever there is an indication at the end of a reporting period that the asset may be impaired.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(i) Impairment of other assets (Continued)

Recoverable amount is the higher of 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease and to the extent that the impairment loss is greater than the related revaluation surplus, the excess impairment loss is recognised in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss to the extent that it eliminates the impairment loss which has been recognised for the asset in prior years. Any increase in excess of this amount is treated as a revaluation increase.

(j) 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)

(j) Business combinations (Continued)

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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.

(k) Goodwill

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

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

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)

(l) Inventories

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

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

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

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

(m) 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 expected credit loss, 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.

(n) 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.

(o) 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.

(p) 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)

(q) 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) Equity-settled 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).

(r) Taxation

The income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit or loss before tax because of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Taxation (Continued)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Taxation (Continued)

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(s) 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.

(t) Revenue and other income

Revenue from contracts with customers

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)

(t) 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 the same 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.

(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)

(u) Foreign Currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

Exchange differences relating to the retranslation of the Group's net assets in Hong Kong dollars to the Group's presentation currency (i.e. Renminbi) are recognised directly in other comprehensive income and accumulated in exchange reserve. Such exchange differences accumulated in the exchange reserve are not reclassified to profit or loss subsequently.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(v) 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)

(w) 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.

(x) Dividends

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

(y) 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)

(z) Non-current assets held for sale

Asset classified as classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Asset classified as are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment in an associate or, a portion of an investment in an associate, the investment, or the portion of the investment in the associate, that will be disposed of is classified as held for sale when the criteria described above are met. The Group then ceases to apply the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate that has not been classified as held for sale continues to be accounted for using the equity method.

(aa) Segment reporting

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(bb) 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.

(cc) 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(cc) Financial instruments (Continued)

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs. Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial assets

Classification and subsequent measurement of financial assets

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 selling and collecting 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.

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)

(cc) Financial instruments (Continued)

***Financial assets** (Continued)*

Classification and subsequent measurement of financial assets (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

The Group recognises a loss allowance for expected credit loss ("ECL") on financial assets which are subject to impairment under IFRS 9 (including trade receivables, deposit paid, other receivables, fixed deposits at bank, 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 using a provision matrix 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)

(cc) Financial instruments (Continued)

***Financial assets** (Continued)*

Impairment of financial assets

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)

(cc) Financial instruments (Continued)

Financial assets *(Continued)*

Impairment of financial assets (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)

(cc) Financial instruments (Continued)

***Financial assets** (Continued)*

Impairment of financial assets (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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(cc) Financial instruments (Continued)

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definition of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs. Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

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)

(cc) 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) Estimated impairment of property, plant and equipment, right-of-use assets and intangible asset

Property, plant and equipment, right-of-use assets and intangible asset are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the assets belongs. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the net present value used in the impairment test.

As at 31 December 2019, the carrying amounts of property, plant and equipment, right-of-use assets and intangible assets are approximately RMB61,963,000, RMB2,501,000 and RMB2,811,000 (2018: approximately RMB96,394,000, RMB Nil and approximately RMB43,952,000) respectively, after taking into account the impairment losses of the intangible asset of approximately RMB22,815,000 (2018: approximately RMB Nil) that have been recognized during the year ended 31 December 2019. Details of the impairment of intangible assets are disclosed in Notes 12 and 28.

(c) Allowance for ECL on 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 29(a).

(d) Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 December 2019, the carrying amount of goodwill is RMB Nil (2018: approximately RMB27,712,000) and the impairment loss of goodwill of approximately RMB27,712,000 was recognised during the year ended 31 December 2019 (2018: approximately RMB16,671,999). The details of impairment of goodwill are disclosed in note 14.

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	
	2019 RMB'000	2018 RMB'000	**2019 RMB'000**	2018 RMB'000	**2019 RMB'000**	2018 RMB'000
Revenue from external customers	**107,460**	142,627	**58,571**	71,808	**166,031**	214,435
Inter-segment revenue	**53,304**	65,954	**–**	–	**53,304**	65,954
Reportable segment revenue	**160,764**	208,581	**58,571**	71,808	**219,335**	280,389
Segment results	**(113,289)**	(102,757)	**(18,353)**	(26,926)	**(131,642)**	(129,683)
Written down on inventories	**(29,458)**	(25,364)	**–**	–	**(29,458)**	(25,364)
Bad debts written off on trade receivables	**(31,018)**	(12,359)	**–**	–	**(31,018)**	(12,359)
Reversal of/(allowance for) expected credit loss on trade receivables, net	**10,171**	(8,084)	**(875)**	(9)	**9,296**	(8,093)
Impairment loss recognised on goodwill	**–**	–	**(27,712)**	–	**(27,712)**	(16,671)
Impairment loss, recognised on intangible assets	**(14,855)**	–	**(7,960)**	–	**(22,815)**	–
Loss on the remeasurement of asset classified as held for sale	**(4,725)**	–	**–**	–	**(4,725)**	–
Other revenue					**1,089**	2,480
Other net loss					**–**	(48)
Share of results from an associate					**239**	880
Central administration costs					**(10,909)**	(5,083)
Loss on derecognition of convertible bonds					**(1,217)**	–
Finance costs					**(7,517)**	(7,557)
Loss before taxation					**(256,389)**	(201,498)

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

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

The accounting policies of the operating segments are the same as the Group's accounting policies to the consolidated financial statements. Segment results represent the loss recorded by each segment without allocation of other revenue, other net loss, share of results from an associate, loss on derecognition of convertible bonds, 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.

4. TURNOVER AND SEGMENT INFORMATION (Continued)

Segment assets and liabilities:

	Wholesalers		Retail outlets		Total	
	2019	2018	**2019**	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment assets	**217,442**	452,187	**39,544**	90,517	**256,986**	542,704
Unallocated assets					**46,867**	47,569
Asset classified as held for sale					**26,300**	–
Total assets					**330,153**	590,273
Segment liabilities	**78,507**	73,891	**684**	1,037	**79,191**	74,928
Unallocated liabilities					**19,393**	34,536
Total liabilities					**98,584**	109,464

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

– all assets are allocated to reportable segments other than investment in an associate and certain cash and cash equivalents; and

– all liabilities are allocated to reportable segments other than deferred tax liabilities, convertible bonds and certain accrued changes and other payables.

4. TURNOVER AND SEGMENT INFORMATION (Continued)

Other segment information:

	Wholesalers		Retail outlets		Total	
	2019 **RMB'000**	2018 RMB'000	**2019** **RMB'000**	2018 RMB'000	**2019** **RMB'000**	2018 RMB'000
Capital expenditure*	**6,944**	10,834	**–**	470	**6,944**	11,304
Depreciation of property, plant and equipment	**8,857**	8,150	**980**	1,092	**9,837**	9,242
Depreciation of right-of-use assets	**88**	–	**–**	–	**88**	–
Amortisation of lease prepayments	**–**	88	**–**	–	**–**	88
Written off of at property, plant and equipment	**85**	–	**428**	–	**513**	–
Loss on disposal of property, plant and equipment	**–**	385	**–**	595	**–**	980
Written down on inventories	**29,458**	25,364	**–**	–	**29,458**	25,364
Bad debts written off on trade receivables	**31,018**	12,359	**–**	–	**31,018**	12,359
(Reversal of)/allowance for expected credit loss on trade receivables, net	**(10,171)**	8,084	**875**	9	**(9,296)**	8,093
Loss on the remeasurement of asset classified as held for sale	**4,725**	–	**–**	–	**4,725**	–

* Capital expenditure consists of additions to property, plant and equipment.

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.

	2019 RMB'000	2018 RMB'000
Mainland China	**166,031**	214,435

Information about major customers:

No information about major customers is presented as no single customer contributed over 10% of the total revenue of the Group during the year ended 31 December 2019 and 2018.

5. OTHER REVENUE AND OTHER NET LOSS

	2019 RMB'000	2018 RMB'000
Other revenue		
Interest income	**143**	1,918
Rental income	**683**	562
Samples income	**263**	–
	1,089	2,480
Other net loss		
Net foreign exchange loss	**–**	(48)

6. LOSS BEFORE TAXATION

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

		2019 RMB'000	2018 RMB'000
(a)	**Finance costs:**		
	Interest on bank loans	**3,292**	3,235
	Imputed interest on convertible bonds	**4,225**	4,322
		7,517	7,557
(b)	**Staff costs:**		
	Contributions to defined contribution retirement plans	**2,929**	2,891
	Salaries, wages and other benefits	**31,732**	32,723
	Equity-settled share-based payments expenses	**2,898**	515
		37,559	36,129
(c)	**Other items:**		
	Amortisation		
	– lease prepayments	**–**	88
	– intangible assets (Note 12)	**18,326**	18,365
	Depreciation of property, plant and equipment	**9,837**	9,242
	Depreciation of right-of-use assets	**88**	–
	Auditors' remuneration		
	– Audit services	**1,200**	1,308
	– Non-audit services	**–**	–
	Loss on disposal of property, plant and equipment	**–**	980
	Written off of property, plant and equipment	**513**	–
	Written down on inventories	**29,458**	25,364
	Bad debts written off on trade receivables	**31,018**	12,359
	(Reversal of)/allowance for expected credit loss on trade receivables, net	**(9,296)**	8,093
	Loss on the remeasurement of asset classified as held for sale	**4,725**	–
	Operating lease charges in respect of properties	**–**	145
	Research and development expenses	**11,774**	11,095
	Short-term lease payment	**626**	–
	Cost of inventories sold#	**136,558**	175,772
	Impairment loss recognised on goodwill	**27,712**	16,671
	Impairment loss recognised on intangible assets	**22,815**	–
	Loss on derecognition of convertible bonds	**1,217**	–

Cost of inventories for the year ended 31 December 2019 includes approximately RMB10,565,000 (2018: approximately RMB9,878,000) 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. TAXATION

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

	2019 RMB'000	2018 RMB'000
Current tax		
– PRC corporate income tax	**–**	–
Deferred tax		
– Origination of temporary differences	**1,904**	188
	1,904	188

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

	2019 RMB'000	2018 RMB'000
Loss before taxation	**(256,389)**	(201,498)
Notional tax on profit before taxation, calculated at the standard tax rates applicable to the respective tax jurisdictions	**(62,954)**	(49,619)
Tax effect of income not taxable for tax purpose	**(60)**	(242)
Tax effect of expenses not deductible for tax purpose	**19,041**	15,706
Tax effect of unused tax losses not recognised	**45,877**	34,343
Tax expense	**1,904**	188

(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 2018 and 2019.

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 2019

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to defined contributions retirement plans RMB'000	Discretionary bonuses RMB'000	Sub-total RMB'000	Equity-settled share-based payments (Note c) RMB'000	Total RMB'000
Executive directors							
Mr. Ding Peiji *(Chairman)*	–	708	10	–	718	32	750
Mr. Ding Peiyuan	–	612	10	–	622	348	970
Ms. Ding Lizhen	–	612	10	–	622	326	948
Sub-total	–	1,932	30	–	1,962	706	2,668
Independent non-executive directors							
Mr. Hung Cho Sing	152	–	–	–	152	32	184
Mr. Chan Wai Wong	152	–	–	–	152	32	184
Mr. Wu Shiming	152	–	–	–	152	32	184
Sub-total	456	–	–	–	456	96	552
Total	456	1,932	30	–	2,418	802	3,220

8. DIRECTORS' REMUNERATION (Continued)

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 c) 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:

(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) These represent the estimated value of equity-settled-share-based payments 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 26.

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

9. INDIVIDUAL WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2018: three) are directors whose remuneration is disclosed in note 8 above. The emoluments in respect of the remaining two individuals (2018: two) are as follows:

	2019 RMB'000	2018 RMB'000
Salaries and other emoluments	**1,113**	1,198
Contributions to defined contribution retirement plans	**25**	22
	1,138	1,220

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

	2019	2018
Nil to HK$1,000,000	**2**	2

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

	2019	2018
Nil to HK$1,000,000	**2**	2

10. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss for the year of approximately RMB258,293,000 (2018: loss of approximately RMB201,686,000) and the weighted average of 984,000,000 ordinary shares (2018: 962,521,000 ordinary shares).

(b) Diluted loss per share

The effect of the Company's share options and convertible bonds was anti-dilutive for the year ended 31 December 2019 and 2018, and therefore, diluted loss per share is 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 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 and 1 January 2019	125,550	13,796	10,405	4,631	3,704	158,086
Additions	–	–	4,144	–	2,800	6,944
Written off	–	(1,915)	(116)	–	(826)	(2,857)
Assets classified as held for sale	(26,970)	(10,856)	–	–	–	(37,826)
At 31 December 2019	98,580	1,025	14,433	4,631	5,678	124,347
Accumulated depreciation and impairment:						
At 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 and 1 January 2019	50,470	3,699	2,837	3,006	1,680	61,692
Charge for the year	6,284	497	1,642	444	970	9,837
Written off	–	(1,508)	(104)	–	(732)	(2,344)
Assets classified as held for sale	(4,358)	(2,443)	–	–	–	(6,801)
At 31 December 2019	52,396	245	4,375	3,450	1,918	62,384
Net book value:						
At 31 December 2019	46,184	780	10,058	1,181	3,760	61,963
At 31 December 2018	75,080	10,097	7,568	1,625	2,024	96,394

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

(b) Buildings with net book value of approximately RMB32,708,000 as at 31 December 2019 (2018: approximately RMB65,006,000) were pledged as collateral for the Group's bank loans (note 22).

(c) At 31 December 2019, all of the ownership certificates for buildings were obtained.

12. INTANGIBLE ASSETS

	Computer software RMB'000	Distribution channels RMB'000	Total RMB'000
At 31 December 2018, 1 January 2019 and 31 December 2019	28,442	69,300	97,742
Accumulated amortisation:			
At 1 January 2018	6,351	29,074	35,425
Charge for the year	2,867	15,498	18,365
At 31 December 2018 and 1 January 2019	9,218	44,572	53,790
Charge for the year	2,828	15,498	18.326
Impairment for the year	14,855	7,960	22,815
At 31 December 2019	26,901	68,030	94,931
Net book change:			
At 31 December 2019	1,541	1,270	2,811
At 31 December 2018	19,224	24,728	43,952

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.

For the impairment testing, please refer to Note 28.

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. RIGHT-OF-USE ASSETS/ LEASE PREPAYMENTS

Right-of-use assets:

	Leasehold lands RMB'000
Cost:	
At 1 January 2019 and 31 December 2019	4,206
Accumulated depreciation:	
At 1 January 2019	1,617
Charge provided for the year	88
At 31 December 2019	1,705
Carrying amounts	
At 31 December 2019	2,501
At 1 January 2019	2,589

Upon initial application of IFRS 16 on 1 January 2019, the leasehold lands was reclassified from lease prepayments to right-of-use assets.

Right-of-use assets with carrying amounts of approximately RMB1,568,000 (2018: approximately RMB1,623,000) as at 31 December 2019 were pledged as collateral for the Group's bank loans (note 22). Leasehold lands represent the costs of land use rights in respect of certain leasehold lands located in Mainland China, which are held under a medium lease form.

Lease Prepayments:

	RMB'000
Cost:	
At 1 January 2018 and 31 December 2018	4,206
Accumulated amortisation:	
At 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

14. GOODWILL

	RMB'000
Cost:	
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	78,396
Accumulated impairment:	
At 1 January 2018	34,013
Impairment for the year	16,671
At 31 December 2018 and 1 January 2019	50,684
Impairment for the year	27,712
At 31 December 2019	78,396
Net book value:	
At 31 December 2019	–
At 31 December 2018	27,712

Note:

(a) For the impairment testing on goodwill please refer to Note 28.

(b) 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.

15. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2019 RMB'000	2018 RMB'000
Provision for PRC corporate income tax	**–**	–

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 2018	2,092	(1,300)	792
Credited to profit or loss (note 7(a))	(188)	–	(188)
At 31 December 2018 and 1 January 2019	1,904	(1,300)	604
Charged to profit or loss (note 7(a))	(1,904)	–	(1,904)
At 31 December 2019	–	(1,300)	(1,300)

Reconciliation to the consolidated statements of financial position:

	2019 **RMB'000**	2018 RMB'000
Net deferred tax asset recognised in the consolidated statement of financial position	**–**	1,904
Net deferred tax liability recognised in the consolidated statement of financial position	**(1,300)**	(1,300)
	(1,300)	604

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(t), the Group has not recognised deferred tax assets in respect of cumulative tax losses of approximately RMB479,321,000 (2018: approximately RMB302,528,000) 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 related to the Group's PRC subsidiaries of approximately RMB477,108,000 (2018: approximately RMB300,316,000) 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 approximately RMB50,658,000 (2018: approximately RMB227,070,000) 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

	2019 RMB'000	2018 RMB'000
Acquisition of interests in an associate	45,000	45,000
Share of post-acquisition profits, net of dividend received	1,676	1,437
At end of the year	46,676	46,437

Summarised statement of financial position of the associate:

	2019 RMB'000	2018 RMB'000
Non-current assets	955	364
Current assets	103,000	103,193
Non-current liabilities	–	–
Current liabilities	(231)	(364)
Net assets of the associate	103,724	103,193

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

	2019 RMB'000	2018 RMB'000
Revenue	8,443	9,426
Profit for the year	531	1,956
Total comprehensive income for the year	531	1,956
Dividend received during the year	–	–

Reconciled to the Group's interests in the associate:

	2019 RMB'000	2018 RMB'000
Gross amounts of net assets of the associate	103,724	103,193
Group's effective interest	45%	45%
Group's share of net assets of the associate	46,676	46,347

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
			2019		2018			
			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:

	2019	2018
	RMB'000	RMB'000
Raw materials	**1,478**	1,127
Work in progress	**2,443**	1,089
Finished goods	**45,976**	67,198
	49,897	69,414

18. TRADE RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**68,718**	179,775
Less: Allowance for expected credit loss	**(937)**	(39,969)
	67,781	139,806

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 (2018: 30 to 120 days).

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:

	2019 RMB'000	2018 RMB'000
Within 90 days	**44,251**	55,649
90-120 days	**7,755**	20,330
After 120 days but within 180 days	**6,977**	23,615
After 180 days but within 1 year	**315**	17,321
Over 1 year	**8,483**	22,891
	67,781	139,806

Details of assessment for expected credit losses of trade receivables for the year ended 31 December 2019 and 2018 are set out in note 29(a).

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019	2018
	RMB'000	RMB'000
Prepayments to suppliers	**6,030**	49,341
Other tax recoverable	**6,560**	10,100
Other prepayments and receivables	**26,527**	58,787
	39,117	118,228

Details of assessment for expected credit losses of other receivable for the year ended 31 December 2019 and 2018 are set out in note 29(a).

20. CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2019	2018
	RMB'000	RMB'000
Cash at bank and on hand	**32,102**	3,555

At 31 December 2019, cash and cash equivalents and fixed deposits at banks with original maturity over three months with aggregate amount of approximately RMB32,002,000 (2018: approximately RMB42,320,000) 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/(used in) operations:

	Note	2019 RMB'000	2018 RMB'000
Loss before taxation		**(256,389)**	(201,498)
Adjustment for:			
Depreciation of property, plant and equipment	6(c)	**9,837**	9,242
Amortisation of intangible assets	6(c)	**18,326**	18,365
Amortisation of lease prepayments	6(c)	**–**	88
Depreciation of right-of-use assets	6(c)	**88**	–
Equity-settled share-based payments		**2,898**	515
Finance costs	6(a)	**7,517**	7,557
Interest income	5	**(143)**	(1,918)
Loss on disposal of property, plant and equipment	6(c)	**–**	980
Written off of property, plant and equipment	6(c)	**513**	–
Loss on the remeasurement of classified as held for sale		**4,725**	–
Impairment loss recognised on intangible assets	12	**22,815**	–
Impairment loss recognised on goodwill	14	**27,712**	16,671
Written down on inventories	6(c)	**29,458**	25,364
Bad debt written off on trade receivables	6(c)	**31,018**	12,359
(Reversal of)/allowance for expected credit loss on trade receivables, net	29(a)	**(9,296)**	8,093
Share of results from an associate		**(239)**	(880)
Loss on derecognition of convertible bonds	6(c)	**1,217**	–
Changes in working capital:			
(Increase)/decrease in inventories		**(9,941)**	10,985
Decrease in trade receivables		**50,303**	53,923
Decrease/(increase) in prepayments, deposits and other receivables		**78,388**	(26,538)
Increase/(decrease) in trade and other payables		**9,374**	(6,515)
Cash generated from/(used in) operations		**18,181**	(73,207)

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 22)	Amounts due to the related parties RMB'000	Convertible bonds RMB'000 (note 24)	Total RMB'000
At 1 January 2018	56,950	16,657	27,825	101,432
Changes from financing cash flows, net	5,050	(16,881)	4,322	(7,509)
Others:				
Others non-cash changes	–	224	–	224
At 31 December 2018 and 1 January 2019	62,000	–	32,147	94,147
Changes from financing cash flows, net	(17,000)	–	(18,630)	(35,630)
Others:				
Others non-cash changes, net	–	–	(14)	(14)
As 31 December 2019	45,000	–	13,503	58,503

21. ASSETS CLASSIFIED AS HELD FOR SALE

	2019 **RMB'000**
Assets classified as held for sale:	
Buildings	**26,300**

On 12 December 2019, Red Kids (China) Co., Ltd ("**Red Kids China**"), entered into the sale and purchase agreement with 上海晏河建設勘測設計有限公司("**Shanghai Yanhe**"), pursuant to which Red Kids China has agreed conditionally to sell, and Shanghai Yanhe has agreed conditionally to purchase Building No. 3 (also known as Building No. 7), Shanghai Shangzhifang Fashion Culture Creative Park, No. 6066 Songze Avenue, Qingpu District, Shanghai, PRC, for an aggregate consideration of RMB26,300,000. The disposal transaction has been approved by the shareholders at the extraordinary general meeting on 12 February 2020 and the transfer was already completed. For further details, please refer to the announcement of the Company dated 12 December 2019, 7 January 2020, 24 January 2020 and 12 February 2020. Loss on the remeasurement of asset classified as held for sale of were RMB4,725,000 was recognised during the year ended 31 December 2019.

On 12 December 2019, the Company received RMB18,300,000 deposit from Shanghai Yanhe out of the consideration of RMB26,300,000.

22. 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:

	2019 RMB'000	2018 RMB'000
Bank loans		
– secured	**45,000**	62,000
– unsecured	**–**	–
	45,000	62,000

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

	2019 RMB'000	2018 RMB'000
Buildings held for own use (note 11)	**32,708**	65,006
Right-of-use assets (note 13)	**1,568**	1,623
	34,276	66,629

Bank loans of approximately RMB18,500,000 as at 31 December 2019 (2018: approximately RMB35,200,000) are guaranteed by the directors of the Company and a third party which are included in secured bank loans.

The bank loans comprise:

	2019 RMB'000	2018 RMB'000
Fixed-rate bank loans	**45,000**	62,000

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

	2019	2018
Fixed-rate bank loans	**4.78-5.52%**	4.79-6.74%

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

	2019 RMB'000	2018 RMB'000
RMB	**45,000**	62,000

23. TRADE AND OTHER PAYABLES

	2019	2018
	RMB'000	RMB'000
Trade payables *(note a)*	**3,906**	1,215
Contract liabilities *(note b)*	**361**	619
Other payables and accruals	**34,514**	12,183
	38,781	14,017

Note:

(a) In general, the credit period granted by suppliers is 30 days.

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

	2019	2018
	RMB'000	RMB'000
Within 3 months	**3,409**	718
After 3 months but within 6 months	**–**	–
After 6 months but within 1 year	**–**	–
After 1 year	**497**	497
	3,906	1,215

23. TRADE AND OTHER PAYABLES (Continued)

Note: (Continued)

(b) Contract liabilities

	2019 **RMB'000**	2018 RMB'000
Contract liabilities relating to receipt in advance of sales of finished goods	**361**	619

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

Generally, the receipt in advance of sales of finished goods is received from customers when they sign the contract. This receipt in advance is recognised as a contract liability initially and to be recognised point in time as revenue when finished goods are transfer to customer.

Movement in contract liabilities:

	2019 **RMB'000**	2018 RMB'000
At 1 January	**619**	468
Consideration received	**361**	619
Revenue recognised that was included in the contract liability balance at beginning of the year	**(619)**	(468)
At 31 December	**361**	619

24. 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 I**") as a part of consideration for acquisition of distribution channel. The Convertible Bonds I 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 I contain two components: liability and equity components. The equity element is presented in equity heading "equity component of Convertible Bonds I". The effective interest rate of the liability component on the initial recognition was 20.49% per annum.

The Convertible Bonds I 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%

24. CONVERTIBLE BONDS (Continued)

On 23 June 2019, the Company issued convertible bonds with an aggregate principal amount of RMB15,763,478 which borne an interest rate of 8% per annum ("**Convertible Bonds II**"). The Convertible Bonds II entitled the holder to convert them into ordinary shares at a conversion price of HK$0.11 per ordinary share, at any time from 23 June 2019 to 23 June 2021.

The Convertible Bonds II contain two components: liability and equity components. The equity element is presented in equity heading "equity component of Convertible Bonds II". The effective interest rate of the liability component on the initial recognition was 19.26% per annum.

The Convertible Bonds II information are presented as follows:

Principal amount:

– as at 23 June 2019	RMB15,763,478
Interest:	8% p.a. payable semi-annually
Issue date:	23 June 2019
Maturity date:	23 June 2021
Conversion price per share:	HK$0.11
Discount rate:	20.49%

The Convertible Bonds I and II recognised in the consolidated statement of financial position were calculated as follows:

	Convertible Bonds I RMB'000	**Convertible Bonds II** RMB'000
Liability component	25,778	12,839
Equity component	13,641	4,141
Nominal value on issue date	39,419	16,980
At 1 January 2018	27,825	–
Interest charged	5,692	–
Interest payable/paid	(1,370)	–
At 31 December 2018 and 1 January 2019	32,147	–
Interest charged	2,900	1,325
Interest payable/paid	(654)	(661)
Repayment of principal	(18,630)	–
Derecognition of the Convertible Bonds I	(15,763)	–
Liability component at date of issue	–	12,839
At 31 December 2019	–	13,503

25. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

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

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

26. 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.

26. SHARE BASED PAYMENTS (Continued)

Share Option Scheme (Continued)

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

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

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

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

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

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

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

The exercise period of the share options granted is determinable by the Directors, which period may commence 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.

26. 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 equity-settled share-based payments of approximately RMB2,898,000 (2018: RMB515,000) was recognised to consolidated statement of profit or loss and other comprehensive income during the year 31 December 2019.

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		

26. 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 2019		Year ended 31 December 2018	
	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	3,400
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 outstanding as at 31 December 2019 had an exercise price of HK$1.824 (2018: HK$1.824) and a weighted average remaining contractual life of Batch 1-3 are 2 years (2018: 3 years).

(ii) Share Option Scheme

	Year ended 31 December 2019		Year ended 31 December 2018	
	Weighted Average Exercise price	**Number of Options '000**	Weighted Average Exercise price	Number of Options '000
Granted during the year	**HK$0.107**	**80,000**	HK$0.107	80,000
Outstanding at the end of the year	**HK$0.107**	**80,000**	HK$0.107	80,000
Exercisable at the end of the year	**HK$0.107**	**32,000**	HK$0.107	–

The share options outstanding as at 31 December 2019 had an exercise price of HK$0.107 and a weighted average remaining contractual life is 9 years (2018: 10 years).

26. 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)

26. 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	2019 Number	2018 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**	80,000,000
		83,400,000	83,400,000

27. CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

No dividend was paid or proposed during the year ended 31 December 2019 and 2018, 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.

27. CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Share capital

(i) Authorised and issued share capital

	2019			2018		
	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	**984,000,000**	**9,840**	**7,833**	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**	984,000,000	9,840	7,833

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(w).

27. 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 2019 was RMB152,915,000 (2018: RMB258,524,000).

(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 2019 was 24% (2018: 19%).

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

28. IMPAIRMENT TESTING ON CASH GENERATING UNIT

Particular of impairment testing on goodwill and intangible assets

Goodwill and intangible asset of distribution channels have 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 15.5% (2018: 16.3%) 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% (2018: 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 significant decrease in the future business development, the directors assessed the recoverable amount of the CGU as at 31 December 2019 is calculated to be lower than the carrying amount of the CGU to which the goodwill is allocated, therefore impairment loss on goodwill and intangible asset of distribution channels of approximately RMB27,712,000 and RMB7,960,000 (2018: RMB16,671,000 and RMBNil) 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.

The key assumptions included in the discounted cash flows were as follows:

- For the CGUs to continue as a going concern, it will successfully carry out all necessary activities for the development of its business;
- The availability of finance will not be a constraint on the forecast growth of the CGUs in accordance with the business plans;

28. IMPAIRMENT TESTING ON CASH GENERATING UNIT (Continued)

Particular of impairment testing on goodwill and intangible assets (Continued)

- Market trends and conditions where the CGUs operate will not deviate significantly from the economic forecasts in general;

- Key management, competent personnel, and technical staff will all be retained to support ongoing operations of the CGUs;

- There will be no material changes in the business strategy of the CGUs and its operating structure;

- Interest rates and exchange rates in the localities for the operation of the CGUs will not differ materially from those presently prevailing;

- All relevant approvals, business certificates, licenses or other legislative or administrative authority from any local, provincial or national government, or private entity or organisation required to operate in the localities where the CGUs operate or intend to operate will not be officially obtained and renewable upon expiry unless otherwise stated; and

- There will be no major changes in the political, legal, economic or financial conditions and taxation laws in the localities in which the CGUs operate or intend to operate, which would adversely affect the revenues and profits attributable to CGUs.

As the recoverable amounts of the CGUs is lower than the carrying amounts, impairment loss on goodwill and intangible assets of these CGUs are recognised in the consolidated statement of profit or loss and other comprehensive income.

Impairment testing on intangible asset of computer software

Due to the continuing loss in the financial performance of the Group, the management of the Group concluded there was indication for impairment and conducted impairment assessment on recoverable amounts of computer software with carrying amounts of RMB16,396,000. In estimating the recoverable amounts of the computer software, the Group engages third party qualified valuer to perform the valuation. The recoverable amounts of computer software was measure by the cost approach and reflects the amount that would be required currently to replace the computer software. As at 31 December 2019, the recoverable amounts of the computer software was approximately RMB1,541,000. As the recoverable amounts of the computer software is lower than the carrying amount, RMB14,855,000 impairment loss on the computer software are recognised in the consolidated statement of profit or loss and other comprehensive income during the year ended 31 December 2019.

29. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, deposits and other receivables, fixed deposits at banks with original maturity over three months, cash and bank balances, trade payables, accrued charges and other payables, bank loan, and convertible bonds. Details of these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

	2019	2018
	RMB'000	RMB'000
Financial assets		
Financial assets measured at amortised cost	**132,970**	252,248
Financial liabilities		
Amortised costs	**97,284**	108,164

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. 12% of the total trade receivables as at 31 December 2019 (2018: 16%) were due from the Group's largest customer, and 47% (2018: 46%) 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.

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

(a) Credit risk (Continued)

(i) Trade receivables (Continued)

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.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2019 and 2018:

At 31 December 2019	**Expected loss rate**	**Gross carrying amount**	**Loss allowance**
	%	RMB'000	RMB'000
Current (not past due)	0.6%	52,312	305
Less than 1 month past due	3.5%	7,227	250
Over 1 month but 3 months past due	11.8%	357	42
Over 3 months past due	3.9%	8,822	340
		68,718	937

At 31 December 2018	**Expected loss rate**	**Gross carrying amount**	**Loss allowance**
	%	RMB'000	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.

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

(a) Credit risk (Continued)

(i) Trade receivables (Continued)

The closing loss allowances for including trade receivables as at 31 December 2019 reconcile to the opening loss allowances as follows:

	Trade receivables RMB'000
At 31 December 2018	55,098
Allowance for expected credit loss recognised in profit or loss during the year	8,093
Written off as uncollectible	(23,222)
At 1 January 2019	39,969
Reversal of allowance for expected credit loss recognised in profit or loss during the year	(9,296)
Written off as uncollectible	(29,736)
At 31 December 2019	937

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 allowance for expected credit loss 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 2019 and 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.

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

(b) Liquidity risk

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

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

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

At 31 December 2019

	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	–	38,781	–	38,781	38,781
Bank loans	5.0%	46,137	–	46,137	45,000
Convertible bonds	19.2%	1,460	14,303	15,763	13,503
		86,378	14,303	100,681	97,284

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

(b) Liquidity risk (Continued)

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%	63,112	–	63,112	62,000
Convertible bonds	20%	34,393	–	34,393	32,147
		111,522	–	111,522	108,164

(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:

	2019		2018	
	Effective interest rate	**Amount RMB'000**	Effective interest rate	Amount RMB'000
Fixed rate borrowings:				
Bank loans	**4.78-5.52%**	**45,000**	4.79-6.74%	62,000

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.

29. 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 2019 and 2018.

- 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 2019

	Fair value measurement using		
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**
Liability component of Convertible bonds	**–**	**–**	**13,516**

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

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**	**2019**	2018
Binomial model	Discount rate	**20.5%**	17.8%

As at 31 December 2019, the discount rate used to compute the fair value is 20.5% (2018:17.8%). The higher the discount rate, the lower the fair value.

30. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2019 not provided for in the financial statement were as follows:

	2019	2018
	RMB'000	RMB'000
Contracted for	**7,528**	7,528

(b) Operating lease arrangements – As lessee

At 31 December 2018, 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
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.

31. MATERIAL RELATED PARTY TRANSACTIONS

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

Name of party	Relationship
Mr. Ding Peiji	Ultimate controlling party
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 2019 and 2018.

(i) Guarantee provided by a related party

Secured bank loans of RMB18,500,000 as at 31 December 2019 (2018: RMB35,200,000) were guaranteed by Mr. Ding Peiji (note 22).

(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:

	2019 **RMB'000**	2018 RMB'000
Short-term employee benefits	**2,722**	3,027
Contributions to retirement benefit scheme	**79**	77
Equity-settled share-based payments	**815**	453
	3,616	3,557

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

32. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 17	*Insurance Contracts* [1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [3]
Amendments to IFRS 3	*Definition of a business* [2]
Amendments to IAS 1 and IAS 8	*Definition of Material* [4]
Amendments IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform* [4]

1 Effective for annual periods beginning on or after 1 January 2021.

2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

3 Effective for annual periods beginning on or after a date to be determined.

4 Effective for annual periods beginning on or after 1 January 2020.

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in IFRS Standards, will be effective for annual periods beginning on or after 1st January 2020.

The directors of the Company anticipate that the application of all new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

33. FINANCIAL POSITION OF THE COMPANY

	Note	2019 RMB'000	2018 RMB'000
Non-current assets			
Investments in subsidiaries		**4,127**	4,127
Amounts due from subsidiaries		**178,801**	307,987
		182,928	312,114
Current assets			
Other receivables		**9**	9
Cash and cash equivalents		**45**	1,110
		54	1,119
Current liabilities			
Other payables and accruals		**4,590**	1,088
Convertible bonds		**–**	32,147
		4,590	33,235
Net current liabilities		**(4,536)**	(32,116)
Total assets less current liabilities		**178,392**	279,998
Non-current liabilities			
Convertible bonds		**13,503**	–
Net assets		**164,889**	279,998
Equity			
Share capital	27	**7,833**	7,833
Reserves	34	**157,056**	272,165
Total equity		**164,889**	279,998

Approved and authorised for issue by the board of directors on 7 May 2020.

Ding Peiji
Director

Ding Lizhen
Director

34. RESERVES OF THE COMPANY

	Note	Share Premium RMB'000 27(c)(i)	Share-Based payment reserve RMB'000 27(c)(iv)	Convertible bonds reserve RMB'000 27(c)(vi)	Exchange reserve RMB'000 27(c)(iii)	Accumulated losses RMB'000	Total RMB'000
Balance at 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 and 1 January 2019		272,205	5,842	13,641	28,031	(47,554)	272,165
Changes in equity for 2019:							
Loss for the year		–	–	–	–	(128,911)	(128,911)
Other comprehensive loss		–	–	–	6,763	–	6,763
Total comprehensive loss		–	–	–	6,763	(128,911)	(122,148)
Readmit of committable bonds		–	–	(13,641)	–	13,641	–
Recognition of equity component of convertible bonds		–	–	4,141	–	–	4,141
Equity-settled shore-based transaction		–	2,898	–	–	–	2,898
Balance at 31 December 2019		272,205	8,740	4,141	34,794	(162,824)	157,056

(Expressed in Renminbi unless otherwise indicated)

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	Held by a Subsidiary	Principal activity
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

* 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 16 as at 1 January 2019. 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 7 May 2020.

38. EVENTS AFTER THE REPORTING PERIOD

(i) On 12 December 2019, Red Kids (China) Co., Ltd ("**Red Kids China**"), entered into the Sale and Purchase Agreement with 上海晏河建設勘測設計有限公司("**Shanghai Yanhe**"), pursuant to which Red Kids China has agreed conditionally to sell, and Shanghai Yanhe has agreed conditionally to purchase Building No. 3 (also known as Building No. 7), Shanghai Shangzhifang Fashion Culture Creative Park, No. 6066 Songze Avenue, Qingpu District, Shanghai, PRC, for an aggregate consideration of RMB26,300,000. The disposal transaction has been approved by the shareholders at the extraordinary general meeting on 12 February 2020 and the transfer was already completed. For further details, please refer to the announcement of the Company dated 12 December 2019, 7 January 2020, 24 January 2020 and 12 February 2020.

(ii) Since January 2020, the outbreak on Novel Coronavirus ("**COVID-19**") has impacted the global business environment. Pending the development and spread of COVID-19 subsequent to the date of the financial statements, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of these financial statements. The Group will continue to monitor the development of COVID-19 and react actively to its impact on the financial position and operating results of the Group.

FIVE YEARS FINANCIAL SUMMARY

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

	2019 **RMB'000**	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Turnover	**166,031**	214,435	334,741	368,849	585,698
Gross Profit	**29,473**	38,663	66,569	11,667	212,446
(Loss)/profit from operations	**(248,872)**	(193,941)	(150,388)	(130,444)	75,032
(Loss)/profit before taxation	**(256,389)**	(201,498)	(155,287)	(133,080)	71,921
(Loss)/profit for the year	**(258,293)**	(201,686)	(155,271)	(144,455)	30,338
Non-current assets	**114,956**	219,270	268,495	203,860	203,794
Current assets	**215,197**	371,003	513,237	678,266	854,878
Current liabilities	**83,781**	108,164	94,826	82,525	114,172
Net current assets	**131,416**	262,839	418,411	595,741	740,706
Net assets	**231,569**	480,809	657,781	798,601	943,200
Gross profit margin	**17.8%**	18.0%	19.9%	3.2%	36.3%
Operating (loss)/profit margin	**(149.9%)**	(90.4%)	(44.8%)	(35.4%)	12.8%
Net (loss)/profit margin	**(154.4%)**	(94.0%)	(46.4%)	(39.2%)	5.2%
Current ratio	**2.6 times**	3.5 times	5.4 times	7.9 times	7.5 times
Gearing ratio	**25.3%**	19.4%	8.7%	6.1%	6.1%
Inventory turnover day	**159 days**	182 days	127 days	63 days	42 days
Trade receivables turnover day	**228 days**	303 days	289 days	285 days	169 days
Trade and bills payables turnover day	**7 days**	8 days	8 days	6 days	10 days