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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1247)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

The board (the "**Board**") of directors (the "**Directors**") of Miko International Holdings Limited (the "**Company**") announced the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 June 2017 together with the comparative figures for the corresponding period in 2016.

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

For the six months ended 30 June 2017

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 30 June 2017

	Notes	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		**86,542**	83,098
Intangible assets		**51,750**	61,782
Lease prepayments		**2,721**	2,765
Deposits for purchase of property, plant and equipment		**25,611**	27,470
Deposits for acquisition of distribution channels		**39,417**	—
Goodwill		**26,736**	26,736
Deferred tax assets		**2,148**	2,009
Investment in an associate		**45,189**	—
		280,114	203,860
Current assets			
Inventories		**77,368**	80,750
Trade receivables	10	**262,032**	314,965
Prepayments, deposits and other receivables		**97,358**	68,710
Fixed deposits at bank with original maturity over three months		**—**	201,300
Cash and cash equivalents		**149,017**	12,541
		585,775	678,266
Current liabilities			
Bank loans		**57,300**	49,300
Trade and other payables	11	**36,059**	33,225
		93,359	82,525
Net current assets		**492,416**	595,741
Total assets less current liabilities		**772,530**	799,601
Non-current liabilities			
Deferred tax liabilities		**3,535**	1,300
Convertible bonds		**25,871**	—
		29,406	1,300
Net assets		**743,124**	798,301
Equity			
Share capital	12(a)	**6,483**	6,483
Reserves		**736,641**	791,818
Total equity		**743,124**	798,301

The accompanying notes form an integral part of these unaudited interim condensed consolidated financial statements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM 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.

During the period, the Group was principally engaged in the business of design, manufacture and sales of children apparel products. There were no significant changes in the nature of the Group's principal activities during the period.

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

These condensed consolidated interim financial statements have not been audited.

2. BASIS OF PREPARATION

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

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

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

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

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

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

3. CHANGES IN ACCOUNTING POLICIES

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

4. REVENUE AND SEGMENT INFORMATION

The Group was principally engaged in the business of design, manufacture and sales of children's apparel products. Revenue represents the sales value of goods sold less returns, discounts and value added taxes.

Segment revenue and results

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

	Wholesalers Six months ended 30 June		Retail outlets Six months ended 30 June		Total Six months ended 30 June	
	2017	2016	**2017**	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Revenue from external customers	**101,269**	136,882	**15,664**	12,820	**116,933**	149,702
Inter-segment revenue	**8,246**	12,631	**—**	—	**8,246**	12,631
Reportable segment revenue	**109,515**	149,513	**15,664**	12,820	**125,179**	162,333
Segment results	**(35,791)**	12,834	**(3,587)**	226	**(39,378)**	13,060
Impairment loss recognised on trade receivables	**(25,399)**	—	**—**	—	**(25,399)**	—
Other revenue					**1**	1
Share of results from an associate					**189**	—
Central administration costs					**(2,466)**	(2,350)
Finance costs					**(95)**	(61)
(Loss)/profit before taxation					**(67,148)**	10,650

The accounting policies of the operating segments are the same as the Group's accounting policies to the consolidated financial statements. Segment results represent the profit/(loss) recorded by each segment without allocation of other revenue, and central administrative costs including directors' remuneration and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and assessment of segment performance.

Segment assets and liabilities

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

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

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

— all assets are allocated to reportable segments other than assets held by the Company and its subsidiaries which the role are investment holding company. Goodwill is allocated to reportable segments; and

— all liabilities are allocated to reportable segments other than liabilities held by the Company and its subsidiaries which the role are investment holding company.

Geographical information:

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

Information about major customers:

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

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

5. SEASONALITY OF OPERATION

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

6. OTHER REVENUE AND OTHER NET LOSS

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

7. (LOSS)/PROFIT BEFORE TAXATION

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

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

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

8. INCOME TAX

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

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

(ii) No provision was made for Hong Kong Profits Tax as the Group did not earn any assessable profit subject to Hong Kong Profits Tax for the six months ended 30 June 2016 and 2017;

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

(iv) According to China Corporate Income Tax Law and its implementation rules, dividends receivable by non-China corporate residents from China enterprises are subject to withholding tax at a rate of 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. A rate of 10% is applicable to the calculation of China dividend withholding tax of the Group. Deferred tax liabilities have been provided for based on the expected dividends to be distributed from the Group's China subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.

9. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

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

(b) Diluted (loss)/earnings per share

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

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

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

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

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

10. TRADE RECEIVABLES

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

Normally, the Group does not obtain collateral from customers. Credit evaluations are performed by the senior management on all customers with credit sales. In general, the credit period granted to customers is 120 days.

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

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

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

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

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

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

11. TRADE AND OTHER PAYABLES

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

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

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

12. CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

Authorised and issued share capital

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

(b) Share premium

Under the Companies Law of the Cayman Islands, the funds in the Company's share premium account are distributable to the shareholders 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.

(c) Dividends

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

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET, BUSINESS AND OUTLOOK

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

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

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

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

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

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

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

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

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

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

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

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

Note 1:

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

FINANCIAL REVIEW

Revenue

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

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

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

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

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

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

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

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

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

Cost of Sales

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

Gross Profit and Gross Profit Margin

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

Other Revenue

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

Share of Results from an Associate

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

Impairment Loss Recognised on Trade Receivables

Impairment losses in respect of trade receivables of RMB25.4 million are recorded due to the management of the Company after taking into consideration the current credit worthiness, the past collection history, the aged status and the prevailing market conditions. We continue to conduct comprehensive review of our distributors' repayment histories, resources and financial capabilities to ensure that they are able to repay the debt within the credit period.

Selling and Distribution Expenses

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

Administrative and Other Operating Expenses

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

Finance Costs

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

Income Tax Expenses

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

(Loss)/Profit for the Period

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

Working Capital Management

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

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

Risks of Foreign Exchange Fluctuation

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

Liquidity and Capital Resources

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

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

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

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

Notes to financial ratios:

(1) Trade receivables turnover days equal the average of the opening and closing balances of trade receivables of the relevant period divided by revenue of the relevant period and multiplied by 182 days.

(2) Inventory turnover days equal the average of the opening and closing balances of inventories of the relevant period divided by cost of sales of the relevant period and multiplied by 182 days.

(3) Trade payables turnover days equal the average of the opening and closing balances of trade payables of the relevant period divided by cost of sales of the relevant period and multiplied by 182 days.

(4) Current ratio equals current assets divided by current liabilities as of the end of the period.

(5) Gearing ratio equals the total of bank and other borrowings divided by total equity as of the end of the period.

Issue of Convertible Bonds due 2019 under General Mandate

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

Capital Commitments and Contingent Liabilities

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

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

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

Pledge of Assets

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

Significant Investments and Material Acquisitions and Disposals of Subsidiaries

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

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

Investments Held in Foreign Currency and Hedging

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

USE OF PROCEEDS

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

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

Notes:

(1) There had been some changes in the use of the Net Proceeds as compared with the original allocation made. For further details, please refer to the separate announcements of the Company dated 18 March 2015 and 7 October 2016.

(2) The unutilised net proceeds have been placed in short-term deposits with licensed banking institutions in China.

EMPLOYEES AND REMUNERATION POLICIES

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

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

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

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance and has steered its development and protected the interests of its shareholders in an enlightened and open manner. During 1H 2017, the Board comprised three executive Directors and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code ("**CG Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**"). During 1H 2017, the Company has complied with the CG Code, except for the deviation as explained below.

Code provision A.2.1 provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. As Mr. Ding Peiji ("**Mr. Ding**") is both the chief executive officer and the chairman of the Board of the Company, the Company is in deviation from code provision A.2.1. We consider that vesting the roles of both chairman and chief executive officer in Mr. Ding has the benefit of ensuring consistent leadership within our Group and enabling more effective and efficient overall strategic planning for our Group. The Board believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by current Board composition and structure taking into account the background and experience of our Directors.

Code provision C.1.2 provides that management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the issuer's performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules. Although the management of the Company did not provide a regular monthly update to the members of the Board, the management keeps providing information and updates to the members of the Board as and when appropriate.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

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

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

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

INTERIM DIVIDEND

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

SUFFICIENCY OF PUBLIC FLOAT

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

PUBLICATION OF RESULTS

This interim results announcement has been published on our website at www.redkids.com and the website of the Stock Exchange at www.hkexnews.hk. The interim report of our Company for 1H 2017 containing all the information required by Appendix 16 to the Listing Rules and the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) will be dispatched to the shareholders of our Company and published on our website at www.redkids.com and the website of the Stock Exchange at www.hkexnews.hk in due course.

APPRECIATION

The Board would like to express our heartfelt gratitude towards the management team and staff for their commitment and diligence, and would like to thank our shareholders and business associates for their strong support to the Group.

On behalf of the Board
Miko International Holdings Limited
Ding Peiji
Chairman

Hong Kong
21 August 2017

As at the date of this announcement, the executive Directors are Mr. Ding Peiji, Mr. Ding Peiyuan and Ms. Ding Lizhen; and the independent non-executive Directors are Mr. Hung Cho Sing, Mr. Chan Wai Wong and Ms. Wong Yan Ki, Angel.