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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

The board (the "**Board**") of directors (the "**Directors**") of Miko International Holdings Limited (the "**Company**") announced the audited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the financial year ended 31 December 2017 (the "**FY2017**") which has been reviewed and approved by the Audit Committee, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2017 (Expressed in Renminbi)

	Note	**2017** **RMB'000**	2016 *RMB'000*
Turnover	3	**334,741**	368,849
Cost of sales		**(268,172)**	(357,182)
Gross profit		**66,569**	11,667
Other revenue	4	**11,542**	5,327
Other net gain/(loss)	4	**36**	(252)
Share of results from an associate		**557**	—
Written down on inventories		**(25,451)**	(16,012)
Impairment loss recognised on trade receivables		**(55,134)**	(7,777)
Impairment loss recognised on goodwill	9	**(16,213)**	(17,800)
Selling and distribution expenses		**(96,092)**	(69,794)
Administrative and other operating expenses		**(36,202)**	(35,803)
Loss from operations		**(150,388)**	(130,444)
Finance costs	5(a)	**(4,899)**	(2,636)
Loss before taxation	5	**(155,287)**	(133,080)
Income tax	6(a)	**16**	(11,375)
Loss for the year attributable to shareholders of the Company		**(155,271)**	(144,455)
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		**1,102**	(855)
Total comprehensive loss for the year attributable to shareholders of the Company		**(154,169)**	(145,310)
Loss per share ***(RMB cents)***			
— Basic and diluted	7	**(19)**	(18)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017 (Expressed in Renminbi)

	Note	**2017** *RMB'000*	2016 *RMB'000*
Non-current assets			
Property, plant and equipment		**95,312**	83,098
Intangible assets	8	**62,317**	61,782
Lease prepayments		**2,677**	2,765
Deposits for purchase of property, plant and equipment		**16,157**	27,470
Goodwill	9	**44,383**	26,736
Deferred tax assets		**2,092**	2,009
Investment in an associate		**45,557**	—
		268,495	203,860
Current assets			
Inventories		**105,762**	80,750
Trade receivables	10	**216,320**	314,965
Prepayments, deposits and other receivables		**82,183**	68,710
Fixed deposits at banks with original maturity over three months		**107,000**	201,300
Cash and cash equivalents		**1,972**	12,541
		513,237	678,266

	Note	2017 RMB'000	2016 RMB'000
Current liabilities			
Bank loans		**56,950**	49,300
Trade and other payables	11	**37,815**	33,225
Current tax payable		**61**	—
		94,826	82,525
Net current assets		**418,411**	595,741
Total assets less current liabilities		**686,906**	799,601
Non-current liabilities			
Deferred tax liabilities		**1,300**	1,300
Convertible bonds		**27,825**	—
		29,125	1,300
Net assets		**657,781**	798,301
Equity			
Share capital		**6,483**	6,483
Reserves		**651,298**	791,818
Total equity		**657,781**	798,301

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

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 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

The 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(b) 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) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs and one Interpretation that are first effective for the current accounting period of the Group:

— *Amendments to IAS 7 Disclosure Initiative*
— *Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Loss*
— *Annual Improvements to IFRSs 2014–2016 Cycle*

These developments have had no material impact on the Group's consolidated financial statements.

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendment to IFRSs, Annual Improvements to IFRSs 2014–2016 Cycle	1 January 2018
Amendment to IFRSs, Annual Improvements to IFRSs 2015–2017 Cycle	1 January 2019
Amendment to IFRS 2, Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendment to IFRS 4, Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contract	1 January 2018
IFRS 9, Financial Instruments	1 January 2018
Amendment to IFRS 9, Prepayment Features with Negative Compensation	1 January 2019
Amendment to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
IFRS 15, Revenue from Contracts with Customers	1 January 2018
Amendment to IFRS 15, Clarifications to HKFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 16, Leases	1 January 2019
Amendment to IAS 28, Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendment to IAS 40, Transfers of Investment Property	1 January 2018
IFRIC-Int 22, Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRIC-Int 23, Uncertainty over Income Tax Treatment	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application.

So far it has concluded that the adoption of these is unlikely to result in material impacts to the Group's results of operations and financial position.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 TURNOVER AND SEGMENT INFORMATION

The principal activities of the Group are design, manufacture and sales of children 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	
	2017	2016	**2017**	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**294,742**	344,508	**39,999**	24,341	**334,741**	368,849
Inter-segment revenue	**34,495**	21,735	**—**	—	**34,495**	21,735
Reportable segment revenue	**329,237**	366,243	**39,999**	24,341	**369,236**	390,584
Segment results	**(52,203)**	(77,714)	**(7,708)**	(13,096)	**(59,911)**	(90,810)
Written down on inventories	**(25,451)**	(16,012)	**—**	—	**(25,451)**	(16,012)
Impairment loss recognised on trade receivables	**(55,134)**	(7,777)	**—**	—	**(55,134)**	(7,777)
Impairment loss recognised on goodwill	**—**	—	**(16,213)**	(17,800)	**(16,213)**	(17,800)
Other revenue					**11,542**	5,327
Other net gain/(loss)					**36**	(252)
Share of results from an associate					**557**	—
Central administration costs					**(5,814)**	(3,120)
Finance costs					**(4,899)**	(2,636)
Loss before taxation					**(155,287)**	(133,080)

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, other net gain/(loss), share of results from an associate, finance costs and central administrative costs including directors' remuneration. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and assessment of segment performance.

Segment assets and liabilities:

	Wholesalers		Retail outlets		Total	
	2017	2016	**2017**	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment assets	**624,544**	772,640	**111,481**	82,886	**736,025**	855,526
Unallocated assets					**45,707**	26,600
Total assets					**781,732**	882,126
Segment liabilities	**75,199**	69,502	**1,053**	253	**76,252**	69,755
Unallocated liabilities					**47,699**	14,070
Total liabilities					**123,951**	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 Group which the roles are investment holding company. Goodwill is allocated to reportable segments; and

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

Other segment information:

	Wholesalers		Retail outlets		Total	
	2017	2016	**2017**	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Capital expenditure*	**18,320**	7,617	**20,165**	19,536	**38,485**	27,153
Depreciation	**6,187**	6,419	**716**	1,074	**6,903**	7,493
Loss on disposal Of property, plant and equipment	**795**	3,297	**130**	458	**925**	3,755

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

Geographical information:

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

	2017 *RMB'000*	2016 *RMB'000*
PRC	**331,875**	368,849
Overseas	**2,866**	—
	334,741	368,849

Information about major customers:

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

	2017 *RMB'000*	2016 *RMB'000*
Customer A	**41,573**	42,638

4 OTHER REVENUE AND OTHER NET GAIN/(LOSS)

	2017 *RMB'000*	2016 *RMB'000*
Other revenue		
Interest income	**982**	4,765
Rental income	**608**	562
Reversal of impairment loss recognised on trade receivables	**9,952**	—
	11,542	5,327
Other net gain/(loss)		
Net foreign exchange gain/(loss)	**36**	(252)

5 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

		2017	2016
		RMB'000	*RMB'000*
(a)	**Finance costs:**		
	Interest on bank loans	**2,850**	2,636
	Imputed interest on convertible bonds	**2,049**	—
		4,899	2,636
(b)	**Staff costs:**		
	Contributions to defined contribution retirement plans	**2,766**	3,157
	Salaries, wages and other benefits	**31,709**	37,573
	Equity-settled share-based payment expenses	**8**	411
		34,483	41,141
(c)	**Other items:**		
	Amortisation		
	— lease prepayments	**88**	88
	— intangible assets	**17,908**	14,829
	Depreciation	**6,903**	7,493
	Auditors' remuneration		
	— Audit services	**1,344**	1,369
	— Non-audit services	**286**	308
	Loss on disposal of property, plant and equipment	**925**	3,755
	Written down on inventories	**25,451**	16,012
	Impairment loss recognised on trade receivables	**55,134**	7,777
	Operating lease charges in respect of properties	**160**	621
	Research and development expenses	**12,196**	8,270
	Cost of inventories sold[#]	**268,172**	357,182

[#] Cost of inventories for the year ended 31 December 2017 includes RMB19,909,000 (2016: RMB20,709,000) relating to staff costs and depreciation, which amount is also included in the respective total amounts disclosed separately in notes 5(b) and (c) above for each of these types of expenses.

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

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

	2017	2016
	RMB'000	*RMB'000*
Current tax		
— PRC corporate income tax	**67**	9,344
Under-provision in prior year	**—**	1,782
Deferred tax		
— Origination of temporary differences	**(83)**	249
	(16)	11,375

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

	2017	2016
	RMB'000	*RMB'000*
Loss before taxation	**(155,287)**	(133,080)
Notional tax on loss before taxation, calculated at the standard tax rates applicable to the respective tax jurisdictions	**(36,860)**	(32,490)
Tax effect of income and expenses not taxable or deductible for tax purpose	**13,034**	18,715
Tax effect of tax losses not recognised	**23,810**	23,368
Under-provision in prior year	**—**	1,782
Actual tax (credit)/expense	**(16)**	11,375

(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 2016 and 2017.

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

7 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss for the year of RMB155,271,000 (2016: loss of RMB144,455,000) and the weighted average of 824,000,000 ordinary shares (2016: 824,000,000 ordinary shares).

Weighted average number of ordinary shares

	2017	2016
	'000	*'000*
Issued ordinary shares at 1 January and 31 December	**824,000**	824,000

(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 2017 and 2016, and therefore, diluted loss per share are the same as the basic loss per share.

8 INTANGIBLE ASSETS

	Computer software	**Distribution channels**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Cost:			
At 1 January 2016	28,442	35,874	64,316
Acquisition *(Note 13)*	—	14,983	14,983
At 31 December 2016 and 1 January 2017	28,442	50,857	79,299
Acquisition *(Note 13)*	—	18,443	18,443
At 31 December 2017	28,442	69,300	97,742
Accumulated amortisation:			
At 1 January 2016	679	2,009	2,688
Charge for the year	2,836	11,993	14,829
At 31 December 2016 and 1 January 2017	3,515	14,002	17,517
Charge for the year	2,836	15,072	17,908
At 31 December 2017	6,351	29,074	35,425
Net book value:			
At 31 December 2017	22,091	40,226	62,317
At 31 December 2016	24,927	36,855	61,782

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

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

Computer software	10 years
Distribution channels	2–4¼ years

9 GOODWILL

	RMB'000
Cost:	
At 1 January 2016	15,095
Acquisition *(Note 13)*	29,441
At 31 December 2016 and 1 January 2017	44,536
Acquisition *(Note 13)*	33,860
At 31 December 2017	78,396
Accumulated impairment:	
At 1 January 2016	—
Impairment for the year	17,800
At 31 December 2016 and 1 January 2017	17,800
Impairment for the year	16,213
At 31 December 2017	34,013
Net book value:	
At 31 December 2017	44,383
At 31 December 2016	26,736

Note:

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 have staff members with appropriate experience and qualifications. The assessment conformed to the HKIS Valuation Standards 2017 published by the Hong Kong Institute of Surveyors and the International Valuation Standards 2017 published by International Valuation Standards Council.

10 TRADE RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**269,279**	322,742
Less: Allowance for doubtful debts	**(52,959)**	(7,777)
	216,320	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 30 to 120 days (2016: 30 to 120 days).

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

	2017	2016
	RMB'000	*RMB'000*
Within 90 days	**106,993**	131,585
90–120 days	**24,652**	27,038
After 120 days but within 180 days	**30,078**	30,934
After 180 days but within 1 year	**48,123**	96,715
Over 1 year	**6,474**	28,693
	216,320	314,965

11 TRADE AND OTHER PAYABLES

	2017	2016
	RMB'000	*RMB'000*
Trade payables	**6,695**	6,079
Receipts in advance	**468**	1,324
Amounts due to related parties	**16,657**	12,722
Other payables and accruals	**13,995**	13,100
	37,815	33,225

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

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**6,198**	4,427
After 3 months but within 6 months	**—**	561
After 6 months but within 1 year	**—**	594
After 1 year	**497**	497
	6,695	6,079

12 DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2017 and 2016, 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.

13 ACQUISITION OF DISTRIBUTION CHANNELS

For the year ended 31 December 2017

*Acquisition of distribution channels from Chengdu JiaShang Apparel Company Limited, 成都佳尚服飾有限責任公司 (“**Chengdu JiaShang**”) (the “**Chengdu JiaShang Transfer**”)*

The directors of the Company considered that the acquisition of distribution channels from Chengdu JiaShang constitutes a business combination in accordance with IFRS 3 Business Combinations.

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

	Fair value *RMB'000*
Property, plant and equipment	1,722
Intangible assets *(note 8)*	18,443
	20,165
Goodwill arising on the business combination *(Note 9)*	33,860
	54,025

Total consideration satisfied by:

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

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

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

For the year ended 31 December 2016

*Acquisition of the second phase of the distribution channels from Quanzhou City Rui Hong Apparel Trading Co., Ltd. 泉州市鋭紅服飾商貿有限公司 ("**Rui Hong**") (the "**Rui Hong Transfer Phase 2**")*

The Directors had considered that the acquisition of distribution channels from Rui Hong constitutes a business combination in accordance with IFRS 3 Business Combinations.

The net assets acquired and recognised at the date of the completion of the Rui Hong Transfer Phase 2 are as follows:

	Fair value *RMB'000*
Property, plant and equipment	4,539
Intangible assets *(note 8)*	14,983
	19,522
Goodwill arising on the business combination *(Note 9)*	29,441
	48,963

Total consideration satisfied by:

	RMB'000
Cash consideration paid	48,963

An analysis of the cash flows in respect of the Rui Hong Transfer Phase 2 is as follows:

	RMB'000
Cash consideration paid	48,963
Less: deposits for acquisition of distribution channels paid in previous year	(33,384)
Net outflow of cash and cash equivalents included in cash flows from investing activities	15,579

BUSINESS REVIEW AND OUTLOOK

For the full year of 2017, revenue and net loss of our Group amounted to approximately RMB334.7 million and RMB155.3 million respectively, as compared to revenue and net loss of approximately RMB368.8 million and RMB144.5 million respectively for the full year of 2016.

The overall GDP growth rate of the PRC recorded an increase in the year of 2017 as compared with the prior year, showing a slight sign of renaissance. Nevertheless, the retail industry still faced a mix in performance in the year of 2017. A structural adjustment of the apparel industry together with the weak retail sentiment and intense market competition brought significant challenges to the overall industry. There is no sufficient signal to show a rebound in the market in the year of 2017 in the PRC. The continuous increase in use of on-line shopping/e-commerce, rapid changes in consumer preference in fashion and keen price competition in the apparel industry, highly affected and seized the market share from physical stores. The children apparel industry is still expected to go through continuous consolidation in the future in the PRC.

Going forward, children apparel brands are still exploring ways to exploit consumption potential and enhance competitiveness in the PRC. Our Group has actively developed own distribution channels through acquiring some regional network directly. As such, we further acquired the Chengdu province distribution channels in the mid of 2017. Other than this, we have carefully evaluated the performance of our physical retail stores periodically and closed down some under-performing stores during the year of 2017. Again, though it is not expected that the economy and consumer market would see a large positive sign of improvement in the near future in the PRC, we still believed that on-going development of on-line shopping/e-commerce and convenient distribution channels would drive our development for children apparel industry in the future.

In closing, the Group will make every effort actively seeking opportunities that will create synergy with existing and related businesses under such a rapid changing market. The Group would aim to generate better returns for shareholders in the longer run.

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

	As at 31 December 2017			As at 31 December 2016		
	Operated by distributors	**Self-operated**	**Total**	Operated by distributors	Self-operated	Total
Shopping mall outlets and concessions	**138**	**49**	**187**	163	22	185
Street shops	**143**	**48**	**191**	226	26	252
	281	**97**	**378**	389	48	437

	As at 31 December 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*	**78**	**18**	**96**	75	5	80
Third-tier cities *Note 1*	**117**	**45**	**162**	172	24	196
Fourth-tier cities *Note 1*	**86**	**34**	**120**	142	19	161
	281	**97**	**378**	389	48	437

Note 1:

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

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Our Group's products are primarily marketed through wholesaling to distributors and self-operated stores who operate "redkids" branded retail stores in various provinces and municipalities in the PRC. As at 31 December 2017, there were 281 "redkids" branded retail stores operated by our distributors and 97 self-operated stores in the PRC.

The retail industry experienced a declining retail climate, uncertainty of consumer sentiment, and fierce competition in China for the year of 2017. Our Group's revenue was unavoidably affected by this challenging business environment despite a progressive relaxation of the one-child policy and increasing trend of GDP in the PRC. Coupled with a slow-down of orders received from our distributors and self-operated stores, our Group's revenue recorded a decrease of about 9.2%, from approximately RMB368.8 million for FY2016 to approximately RMB334.7 million for FY2017.

Sales to distributors continued to account for the majority of our Group's revenue during FY2017. Sales to distributors were approximately RMB268.7 million for FY2017, representing approximately 80.3% of our Group's revenue, as compared to that of approximately RMB344.5 million or 93.4% for FY2016.

After the transformation and upgrade in light of the impact of on-line shopping since last year, sales to our designated on-line distributor, who resells our products through different online sales platforms in the PRC, sales of RMB23.2 million were recorded for FY2017 as compared to no sales for FY2016 owing to the undergoing changes by the distributor.

After acquiring several distribution channels in the prior and current years, sales from self-operated stores were approximately RMB40.0 million for FY2017, representing 11.9% of our Group's revenue, as compared to that of approximately RMB24.3 million or 6.6% for FY2016.

For the apparel products segment, sales volume was approximately 7.5 million units for FY2017, representing a decrease of approximately 7.4% as compared to that of approximately 8.1 million units for FY2016. The average wholesale selling price for FY2017 recorded a decrease as compared to that for FY2016, partially reflecting our change in product mix in FY2017.

For the footwear and accessories segment, sales increased from approximately RMB0.1 million for FY2016 to approximately RMB59.5 million for FY2017. The increase in sales from this segment is mainly due to the adjustment in the products sales category strategy.

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

	FY2017	FY2016	**% change**
Sales volume *(million units)*	**7.5**	8.1	**(7.4)**
Average wholesale price *(RMB)*	**44**	45	**(2.2)**

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

	FY2017		FY2016		**% change**
	RMB'000	*%*	*RMB'000*	*%*	
Apparel	**272,404**	**81.3**	368,715	99.9	(26.1)
Footwear and Accessories	**59,471**	**17.8**	134	0.1	44,281.3
OEM services	**2,866**	**0.9**	—	—	100.0
	334,741	**100.0**	368,849	100.0	(9.2)

We primarily market our products through the extensive retail network with approximately 380 retail outlets covering most of the provinces and municipalities in the PRC operated by our distributors and self-operated stores.

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

	FY2017		FY2016		**% change**
	RMB'000	*%*	*RMB'000*	*%*	
Sales to distributors	**268,680**	**80.3**	344,508	93.4	(22.0)
Sales to on-line distributor	**23,196**	**6.9**	—	—	100.0
Sales from self-operated stores	**39,999**	**11.9**	24,341	6.6	64.3
OEM services	**2,866**	**0.9**	—	—	100.0
	334,741	**100.0**	368,849	100.0	(9.2)

Cost of Sales

Our cost of sales decreased by approximately RMB89.0 million or approximately 24.9%, from RMB357.2 million for FY2016 to approximately RMB268.2 million for FY2017. The decrease was generally in line with the decrease in turnover and increase in margin. During FY2017, 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 88.9% for FY2017 as compared to that of approximately 91.8% for FY2016.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by approximately RMB54.9 million or approximately 469.2%, from approximately RMB11.7 million for FY2016 to RMB66.6 million for FY2017. Gross profit margin increased by 16.7%, from 3.2% for FY2016 to 19.9% for FY2017, mainly as a result of the improved in margin sold at the stores in FY2017.

Other Revenue and Other Net Gain/(Loss)

Other revenue primarily consisted of interest income from bank deposits of approximately RMB1.0 million (FY2016: approximately RMB4.7 million), rental income of approximately RMB0.6 million (FY2016: RMB0.6 million) and a reversal of impairment loss recognised on trade receivables approximately RMB10.0 million (FY2016: Nil)

Other net gain/(loss) represented the net foreign exchange gain of approximately RMB0.04 million (FY2016: net loss of approximately RMB0.3 million).

Share of Results from an Associate

In FY2017, share of profit from an associate of the Group was RMB0.6 million (FY2016: Nil).

Impairment Loss Recognised on Trade Receivables

Impairment losses in respect of trade receivables of RMB55.1 million (FY2016: RMB7.8 million) are recorded due to the management of the Company taking into consideration the current credit worthiness, the past collection history, the aged status and the prevailing market conditions. We continue to conduct comprehensive review of our distributors' repayment histories, resources and financial capabilities to ensure that they are able to repay the debt within the credit period.

Impairment loss recognised on goodwill

Due to the recession of consumable market in the PRC, 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 2017 is lower than the carrying amount of the CGU. As such, impairment loss on goodwill of approximately RMB16.2 million (2016: RMB17.8 million) was recognised.

Selling and Distribution Expenses

Selling and distribution expenses primarily consisted of marketing rebates, salaries and benefits for sales and marketing personnel, and advertising and exhibition expenses for outdoor advertisements. Selling and distribution expenses recorded an increase of approximately 37.7%, from approximately RMB69.8 million for FY2016 to approximately RMB96.1 million for FY2017. 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 18.9% and 28.7% for FY2016 and FY2017 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 RMB36.2 million for FY2017, representing an increase of approximately RMB0.4 million increase or approximately 1.1% as compared to approximately RMB35.8 million for FY2016.

As a percentage of turnover, administrative and other operating expenses were 9.7% and 10.8% for FY2016 and FY2017 respectively.

Finance Costs

As a result of the increase in short-term bank borrowings and issuing of convertible bonds in the year of 2017, finance costs increased by approximately RMB2.3 million, from approximately RMB2.6 million for FY2016 to approximately RMB4.9 million for FY2017.

Income Tax Expenses

Income tax expenses decreased from approximately RMB11.4 million for FY2016 to credit of approximately RMB0.016 million for FY2017. The effective tax rate was 0.01% for FY2017, which was comparable to (7.1)% for FY2016. Currently, our principal subsidiaries in the PRC are subject to an enterprise income tax rate of 25%.

Loss for the Year

As a result of the foregoing, loss for FY2017 approximately RMB155.3 million was recorded as compared to the FY2016 approximately RMB144.4 million.

Working Capital Management

We possess sufficient cash to meet liquidity requirements and for strategic alliances and acquisitions, if any. As of 31 December 2017, our cash and cash equivalents, and bank deposits totaled approximately RMB109.0 million (31 December 2016: approximately RMB213.8 million), representing more than 21.2% (31 December 2016: 31.5%) of the total amount of our current assets.

Current ratio and quick ratio were 5.4 times and 4.3 times, respectively, as at 31 December 2017, as compared to 8.2 times and 7.2 times, respectively, as at 31 December 2016.

Inventories

Our inventories increased by approximately RMB25.0 million, from approximately RMB80.8 million as of 31 December 2016 to approximately RMB105.8 million as at 31 December 2017. Inventories mainly comprised raw materials of approximately RMB3.5 million (31 December 2016: approximately RMB3.5 million), work in progress of approximately RMB3.1 million (31 December 2016: approximately RMB1.9 million) and finished goods of approximately RMB99.2 million (31 December 2016: approximately RMB75.4 million). The inventory turnover was 127 days for FY2017 (FY2016: 63 days).

Written down on inventories of RMB25.5 million (2016: RMB16.0 million) are 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 RMB98.7 million, from approximately RMB315.0 million as of 31 December 2016 to approximately RMB216.3 million as of 31 December 2017.

Trade receivables turnover was 290 days for FY2017, (FY2016: 285 days).

Impairment losses in respect of trade receivables of RMB55.1 million (2016: RMB7.8 million) are recorded due to the management of the Company taking into consideration the current credit worthiness, the past collection history, the aged status and the prevailing market conditions. We continue to conduct comprehensive review of our distributors' repayment histories, resources and financial capabilities to ensure that they are able to repay the debt within the credit period.

Trade Payables

Trade payables increased from approximately RMB6.1 million as of 31 December 2016 to approximately RMB6.7 million as of 31 December 2017. Trade payables turnover was 9 days for FY2017 (FY2016: 6 days).

LIQUIDITY AND FINANCIAL RESOURCES

We utilised a combination of cash flows generated from operation and the net proceeds from the listing of the Company's shares on the Main Board of the Stock Exchange in January 2014 to finance our working capital requirements and capital expenditures, and to repay bank borrowings.

The following table sets forth our cash flows for FY2017 and FY2016:

	FY2017 ***RMB'000***	FY2016 *RMB'000*
Net cash used in operating activities	**(51,262)**	(238,765)
Net cash generated from/(used in) investing activities	**28,669**	(185,733)
Net cash generated from/(used in) financing activities	**9,831**	(6,780)
Net decrease in cash and cash equivalents	**(12,762)**	(431,278)
Cash and cash equivalents at 1 January	**12,541**	446,244
Effect of foreign exchange rate changes	**2,193**	(2,425)
Cash and cash equivalents at 31 December	**1,972**	12,541

We were in net cash position as of 31 December 2017, and our gearing ratio was 8.7% as of 31 December 2017 (31 December 2016: 6.1%).

Notes to financial ratios

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

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

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

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

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

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

FINANCIAL RISK MANAGEMENT

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

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

Our interest rate risk arises primarily from bank borrowings. As our Group's operations are mainly conducted in the PRC 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

Issue of Convertible Bonds due 2019 under General Mandate

On 2 June 2017, the Company entered into a business acquisition agreement with the Quanzhou Tuoyu Trade Company Limited (the "**Purchaser**", a subsidiary of the Group) and Chengdu JiaShang Apparel Company Limited, 成都佳尚服飾有限責任公司 (the "**Seller**", a distributor) to acquire distribution channels in Sichuan Province for a consideration of RMB49,000,000 ("**Acquisition Agreement**"). In view of the aforesaid Acquisition Agreement, the Company, the Purchaser and the Seller (as a subscriber) entered into a subscription agreement dated 2 June 2017 ("**Subscription Agreement**"), pursuant to which the Seller conditionally agreed to subscribe and the Company conditionally agreed to issue convertible bonds due in 2019 of a face value of not more than RMB34,393,044. On 23 June 2017, all conditions precedent set out in the Subscription Agreement were fulfilled and the completion of issue of the convertible bonds had taken place. For details, please refer to the announcements of the Company dated 2 June 2017, 22 June 2017 and 23 June 2017.

CAPITAL COMMITMENTS

As of 31 December 2017, capital expenditure contracted but not provided for was approximately RMB7.5 million (31 December 2016: approximately RMB7.7 million).

CONTINGENT LIABILITIES

Our Group did not have any significant contingent liabilities as of 31 December 2017 and 2016.

PLEDGE OF ASSETS

As of 31 December 2017, pledged bank deposits, certain properties and lease prepayments totalled approximately RMB66.0 million (31 December 2016: approximately RMB18.0 million) were pledged for certain bank loans.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Our Group had entered into an Acquisition Agreement with the Seller to acquire 53 distribution channels on 2 June 2017 by issuing convertible bonds of which 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. By 31 December 2017, the acquisition of distribution channels had been completed and transferred to our Group.

Saved as disclosed above, our Group made no other significant investments, material acquisitions or disposal during the year ended 31 December 2017.

INVESTMENTS HELD IN FOREIGN CURRENCY AND HEDGING

For FY2017, 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

The Company was successfully listed on the Stock Exchange on 15 January 2014. The total net proceeds from global offering and over-allotment (the "**Net Proceeds**") of a total 184,000,000 new shares allotted and issued at the offering price of HK$2.28 per share, after deducting the underwriting commissions and other listing expenses, amounted to approximately HK$362.0 million (equivalent to RMB285.0 million).

As of 31 December 2017, our Group had fully utilised the Net Proceeds as set out below:

	Percentage to the net proceeds *(Note)*	**Net proceeds** *RMB'million*	**Utilised amount** *RMB'million*	**Unutilised amount** *RMB'million*
Establish self-operated retail stores	32.1%	91.5	91.5	—
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	12.0	—
Establish an ERP system	9.5%	27.0	27.0	—
Marketing and promotional activities	22.9%	65.2	65.2	—
Working capital and general corporate purposes	30.2%	86.0	86.0	—
	100.0%	285.0	285.0	—

Note: 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.

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 2017, we employed around 500 full-time employees. The total staff costs for FY2017 was approximately RMB34.5 million (FY2016: approximately RMB41.1 million).

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

Neither our Company nor any of its subsidiaries has purchased, sold or redeemed any of our Company's listed securities during FY2017.

SUBSEQUENT EVENTS

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

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 FY2017, 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 FY2017, 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 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.

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 FY2017, 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 FY2017.

REVIEW OF ANNUAL RESULTS BY AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") was established for the purposes of reviewing and providing supervision over the Group's financial reporting process, internal controls and risk management. The Audit Committee has reviewed our consolidated financial statements for FY2017 and the accounting principles and practices adopted, and discussed auditing, internal controls, and financial reporting matters with our management and our Company's external auditors.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

PUBLICATION OF ANNUAL RESULTS

This announcement of annual results is published on the website of the Company (www.redkids.com) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk). The 2017 Annual Report 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 despatched to the shareholders of the Company and published on the website of the Company and the Hong Kong Stock Exchange in due course.

APPRECIATION

The Board would like to express its sincere appreciation to the shareholders, customers, suppliers, management team and staff for their continuous support to the Group.

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

Hong Kong
13 March 2018

As at the date of this announcement, the Directors are:

Executive Directors:	Mr. Ding Peiji, Mr. Ding Peiyuan and Ms. Ding Lizhen
Independent non-executive Directors:	Mr. Hung Cho Sing, Mr. Chan Wai Wong and Ms. Wong Yan Ki, Angel