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 2018

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 2018 (the "**FY2018**") 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 2018 (Expressed in Renminbi)

	Note	**2018**	2017
		RMB'000	*RMB'000*
Turnover	3	**214,435**	334,741
Cost of sales		**(175,772)**	(268,172)
Gross profit		**38,663**	66,569
Other revenue	4	**2,480**	11,542
Other net (loss)/gain	4	**(48)**	36
Share of results from an associate		**880**	557
Written down on inventories		**(25,364)**	(25,451)
Impairment loss recognised on trade receivables		**(8,093)**	(55,134)
Impairment loss recognised on goodwill	9	**(16,671)**	(16,213)
Selling and distribution expenses		**(128,346)**	(96,092)
Administrative and other operating expenses		**(57,442)**	(36,202)
Loss from operations		**(193,941)**	(150,388)
Finance costs	5(a)	**(7,557)**	(4,899)
Loss before taxation	5	**(201,498)**	(155,287)
Income tax	6(a)	**(188)**	16
Loss for the year attributable to shareholders of the Company		**(201,686)**	(155,271)
Other comprehensive (loss)/income for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of overseas subsidiaries		**(392)**	1,102
Total comprehensive loss for the year attributable to shareholders of the Company		**(202,078)**	(154,169)
Loss per share ***(RMB cents)***			
– Basic and diluted	7	**(21)**	(19)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018 (Expressed in Renminbi)

	Note	**2018**	2017
		RMB'000	*RMB'000*
Non-current assets			
Property, plant and equipment		**96,394**	95,312
Intangible assets	8	**43,952**	62,317
Lease prepayments		**2,589**	2,677
Deposits for purchase of property, plant and equipment		**282**	16,157
Goodwill	9	**27,712**	44,383
Deferred tax assets		**1,904**	2,092
Investment in an associate		**46,437**	45,557
		219,270	268,495
Current assets			
Inventories		**69,414**	105,762
Trade receivables	10	**139,806**	216,320
Prepayments, deposits and other receivables		**118,228**	82,183
Fixed deposits at banks with original maturity over three months		**40,000**	107,000
Cash and cash equivalents		**3,555**	1,972
		371,003	513,237

	Note	2018 RMB'000	2017 RMB'000
Current liabilities			
Bank loans		**62,000**	56,950
Trade and other payables	11	**14,017**	37,815
Current tax payable		**–**	61
Convertible bonds		**32,147**	–
		108,164	94,826
Net current assets		**262,839**	418,411
Total assets less current liabilities		**482,109**	686,906
Non-current liabilities			
Deferred tax liabilities		**1,300**	1,300
Convertible bonds		**–**	27,825
		1,300	29,125
Net assets		**480,809**	657,781
Equity			
Share capital		**7,833**	6,483
Reserves		**472,976**	651,298
Total equity		**480,809**	657,781

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.

(b) Changes in accounting policies

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

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

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

The Group has been affected by IFRS 9 in relation to classification of financial assets and measurement of credit losses. Details of the changes in accounting policies are discussed as below.

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

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

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

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

Summary of effects arising from initial application of IFRS 9

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

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

	At 31 December 2017	**Impact on initial application of IFRS 9**	**At 1 January 2018**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	216,320	(2,139)	214,181
Reserves	(651,298)	2,139	(649,159)

Impairment under ECL model

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

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

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

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

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

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

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

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

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

Segment assets and liabilities:

	Wholesalers		Retail outlets		Total	
	2018	2017	**2018**	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment assets	**452,187**	624,544	**90,517**	111,481	**542,704**	736,025
Unallocated assets					**47,569**	45,707
Total assets					**590,273**	781,732
Segment liabilities	**73,891**	75,199	**1,037**	1,053	**74,928**	76,252
Unallocated liabilities					**34,536**	47,699
Total liabilities					**109,464**	123,951

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

– all assets are allocated to reportable segments other than assets held by the Group which 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	
	2018	2017	**2018**	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Capital expenditure*	**10,834**	18,320	**470**	20,165	**11,304**	38,485
Depreciation	**8,150**	6,187	**1,092**	716	**9,242**	6,903
Loss on disposal of property, plant and equipment	**385**	795	**595**	130	**980**	925

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

Geographical information:

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

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

Information about major customers:

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

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

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

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

4 OTHER REVENUE AND OTHER NET (LOSS)/GAIN

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

5 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

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

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

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

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 RMB201,686,000 (2017: loss of RMB155,271,000) and the weighted average of 962,521,000 ordinary shares (2017: 824,000,000 ordinary shares).

Weighted average number of ordinary shares

	2018	2017
	'000	*'000*
Issued ordinary shares at 1 January and 31 December	962,521	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 2018 and 2017, and therefore, diluted loss per share are the same as the basic loss per share.

8 INTANGIBLE ASSETS

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

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

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

Computer software	10 years
Distribution channels	2–4¼ years

9 GOODWILL

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

Note:

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

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**179,775**	269,279
Less: Allowance for doubtful debts	**(39,969)**	(52,959)
	139,806	216,320

Normally, the Group does not obtain collateral from customers. Credit evaluations are performed by the senior management on all customers with credit sales. In general, the credit period granted to customers is 120 days (2017: 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:

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

11 TRADE AND OTHER PAYABLES

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

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

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

12 DIVIDEND

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

BUSINESS REVIEW AND OUTLOOK

For the full year of 2018, revenue and net loss before taxation of our Group amounted to approximately RMB214.4 million and RMB201.5 million respectively, as compared to revenue and net loss before taxation of approximately RMB334.7 million and RMB155.3 million respectively for the full year of 2017.

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

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

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

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

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

	As at 31 December 2018			As at 31 December 2017		
	Operated by distributors	**Self-operated**	**Total**	Operated by distributors	Self-operated	Total
First-tier cities *Note 1*	**–**	**–**	**–**	–	–	–
Second-tier cities *Note 1*	**69**	**16**	**85**	78	18	96
Third-tier cities *Note 1*	**67**	**33**	**100**	117	45	162
Fourth-tier cities *Note 1*	**73**	**25**	**98**	86	34	120
	209	**74**	**283**	281	97	378

Note 1:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Cost of Sales

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

Gross Profit and Gross Profit Margin

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

Other Revenue and Other Net (Loss)/Gain

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

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

Share of Results from an Associate

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

Impairment Loss Recognised on Trade Receivables

Impairment losses in respect of trade receivables of RMB8.1 million (FY2017: RMB55.1 million) are recorded due to the management of the Company taking into consideration the current credit worthiness, the past collection history, the aged status and the prevailing market conditions. We continue to conduct comprehensive review of our distributors' repayment histories, resources and financial capabilities to ensure that they are able to repay the debt within the credit period.

Impairment loss recognised on goodwill

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

Selling and Distribution Expenses

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

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

Administrative and Other Operating Expenses

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

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

As a percentage of turnover, administrative and other operating expenses were 26.8% and 21.0% for FY2017 and FY2018 respectively.

Finance Costs

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

Income Tax Expenses

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

Loss for the Year before Taxation

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

Working Capital Management

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

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

Inventories

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

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

Trade Receivables

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

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

Impairment losses in respect of trade receivables of RMB8.1 million (2017: RMB55.1 million) are recorded due to the management of the Company taking into consideration the current credit worthiness, the past collection history, the aged status and the prevailing market conditions. We continue to conduct comprehensive review of our distributors' repayment histories, resources and financial capabilities to ensure that they are able to repay the debt within the credit period.

Trade Payables

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

LIQUIDITY AND FINANCIAL RESOURCES

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

	FY2018	FY2017
	RMB'000	*RMB'000*
Net cash used in operating activities	**(90,149)**	(51,262)
Net cash generated from investing activities	**63,804**	28,669
Net cash generated from financing activities	**28,545**	9,831
Net increase/(decrease) in cash and cash equivalents	**2,200**	(12,762)
Cash and cash equivalents at 1 January	**1,972**	12,541
Effect of foreign exchange rate changes	**(617)**	2,193
Cash and cash equivalents at 31 December	**3,555**	1,972

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

Notes to financial ratios

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

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

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

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

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

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

FINANCIAL RISK MANAGEMENT

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

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

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

CAPITAL STRUCTURE AND FUND RAISING ACTIVITIES

Placing of Shares under General Mandate

On 9 February 2018, Think Wise Holdings Investment Company Limited ("**Think Wise**", a substantial Shareholder of the Company), the Company and Guotai Junan Securities (Hong Kong) Limited (the "**Placing Agent**") entered into a placing and subscription agreement (the "**Placing and subscription Agreement**") pursuant to which (i) Think Wise has agreed to appoint the Placing Agent and the Placing Agent has agreed to act as agent of Think Wise and use its best endeavors to procure not less than six placees for up to 160,000,000 existing Shares at HK$0.198 (the "**Top-up Placing**"); (ii) the placees and their ultimate beneficial owners shall not be connected person(s) of the Company; (iii) Think Wise has agreed to subscribe for up to 160,000,000 Top-up

Subscription Shares at HK$0.198 (the "**Top-up Subscription**"). The Top-up Placing and Top-up Subscription were completed on 9 February 2018 and 20 February 2018, respectively, and the Company raised net proceeds of approximately HK$31.2 million. For details of the Top-up Placing and Top-up Subscription, please refer to the Company's announcements dated 9 February 2018 and 20 February 2018.

CAPITAL COMMITMENTS

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

CONTINGENT LIABILITIES

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

PLEDGE OF ASSETS

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

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

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

INVESTMENTS HELD IN FOREIGN CURRENCY AND HEDGING

For FY2018, the Group did not hold any investments denominated in foreign currencies. Furthermore, the Group's working capital or liquidity did not encounter any material difficulties or material impacts as a result of the movement in exchange rate.

EMPLOYEES AND REMUNERATION POLICIES

The emolument policy of our Group aims at attracting, retaining and motivating talented individuals. The principle is to have performance-based remuneration which reflects market standards. Remuneration package for each employee is generally determined based on his or her job nature and position with reference to market standards. Our emolument policy will be adjusted depending on a number of factors, including changes to the market practice and stages of our business development, so as to achieve our operational targets. As at 31 December 2018, we employed around 370 full-time employees. The total staff costs for FY2018 was approximately RMB36.1 million (FY2017: approximately RMB34.5 million).

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 FY2018.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance and has steered its development and protected the interests of its shareholders in an enlightened and open manner. During FY2018, the Board comprised three executive Directors and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code (the "**CG Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). During FY2018, the Company has complied with the CG Code, except for the deviation as explained below.

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

Code provision C.1.2 provides that management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the issuer's performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules. During FY2018, the management of the Company had not provided regular monthly updates to the members of the Board. The management had provided information and updates to the members of the Board as and when appropriate.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

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

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 FY2018 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 2018 (2017: 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 2018 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
8 March 2019

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 Mr. Wu Shiming